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McNamara Papers

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Travel briefs, Senegal

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SENEGAL

REPUBLIQUE DU SENEGAL

Aboubakar Gueye  
tel 50196

PROGRAMME DE LA VISITE  
DE MONSIEUR ET MADAME MC NAMARA

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DU 13 AU 15 NOVEMBRE 1977

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DIMANCHE 13 NOVEMBRE 1977

- Fin d'après-midi - Arrivée par la route en provenance de Banjul
- Accueil à l'Hôtel Téranga

LUNDI 14 NOVEMBRE 1977

- 8 heures 00 - A l'Hôtel Téranga - entretien avec Monsieur Cheikh  
à 8 heures 30 Hamidou KANE, Président-Directeur-Général de  
DAKAR-MARINE
- 8 heures 45 - Entretien avec Messieurs Bara DIOUF et Moctar  
à 9 heures 45 KEBE au journal "Le Soleil"
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AW, Haut-Commissaire de l'O. M. V. S. à Dakar
- Déjeuner privé
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- 20 heures 30 - Dîner offert à Monsieur et Madame Mc NAMARA  
par le Chef de l'Etat au Palais de la République

Tenue de ville sombre

Robe longue

PROGRAMME SPECIAL DE MADAME MC NAMARA

LUNDI 14 NOVEMBRE 1977

- 9 heures 00 - En compagnie de Madame Ousmane SECK, visite du jardin d'enfants de la Croix rouge
- 9 heures 45 - Visite d'un Centre féminin de formation professionnelle
- 10 heures 30 - Visite du Musée de l'I.F.A.N.
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Tenue de ville sombre

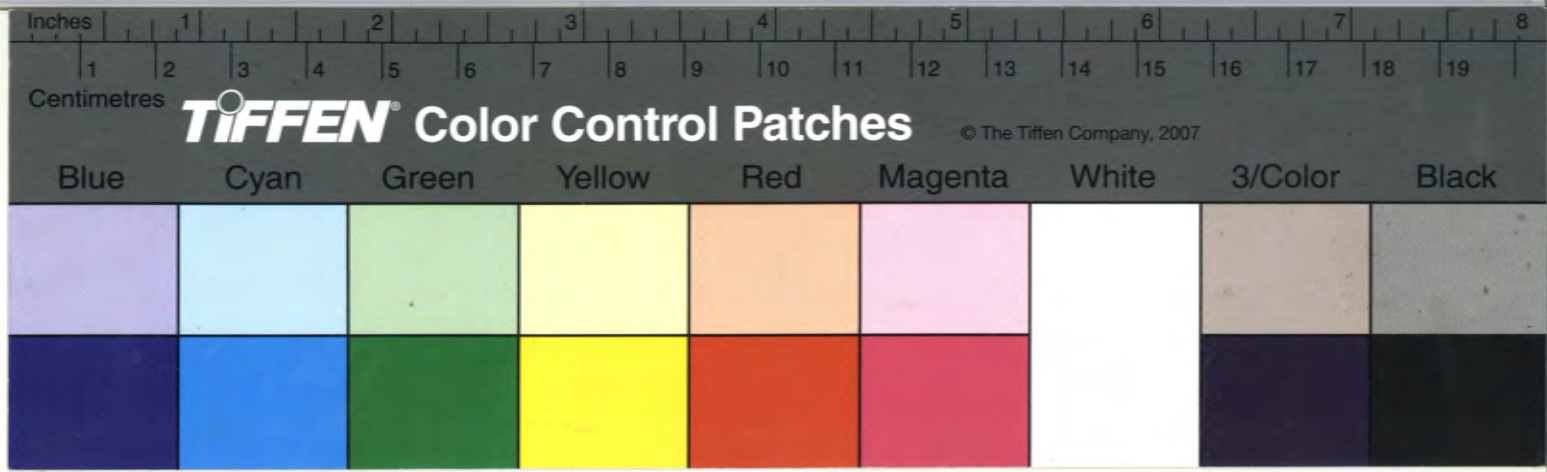
Robe longue



The World Bank has greatly increased its assistance for African economic development in recent years. During the five years through fiscal 1978, it expects to commit almost \$7,500 million for this purpose, compared with \$800 million in 1964-68. In doing so, it is putting great emphasis on supporting policies, projects and institutions designed to make the rural people more productive. Agriculture and rural development now receive more than one-third of all Bank lending in the continent.

The changes that are taking place in Africa's development are reflected here in Senegal, and in the Bank's assistance to your country. Between 1968-72 and 1973-77 World Bank lending to Senegal rose from \$50 million to \$122 million. While infrastructure, industry and tourism remain important, the Bank continues to increase its assistance for rural development and the kind of education that your Government believes will contribute more fully to the aims of national development.

While I am here, I shall discuss with the Government ways in which we can make our joint effort more effective. The task is complex. In seeking ways of enabling large numbers of people to find fulfillment in the economic life of their countries, there are many unanswered questions and gaps in our experience. But I believe that together, and with a shared sense of commitment, we can find some of those answers.





D. List of State Officials and Biographical Data

71

Mr. Léopold-Sédar SENGHOR

President since September 5, 1960. Born on October 9, 1906 at Joal, President Senghor was the first black African to earn a degree at the Ecole Normale Supérieure in Paris (French "Agrégation"), qualifying him to teach in a lycée. From November 1946 to November 1958 he served as a deputy representing Senegal in the French National Assembly; he formed the Senegal Democratic Bloc (BDS) in 1948 which later became the Senegal Progressive Union (UPS) in 1958 in which he still holds the secretary-general's post. From March 1955 to February 1956 he was Secretary of State at the Presidency of the Council (Faure government), then became Minister in the French government and Senator of the French Communauté from 1959-60. He was chief advisor of the West African Federation (AOF) from 1947-1959 and helped form the Parti de Regroupement Africain (PRA) in 1958. When the PRA fragmented, he helped form and became President of the Mali Federation (1959-60). He became President of Senegal on September 5, 1960 and was re-elected in February 1968.

Mr. Abdou DIOUF

42

Prime Minister since March 1970. Mr. Diouf was born on September 7, 1935 at Louga. He graduated in public law and political science from the University of Paris (1959); graduate from the Overseas Civil Service School in Paris (1960); Director of International Technical Cooperation (Sept.-Nov. 1960); Assistant Secretary-General to the Government (Nov. 1960 - June 1961); Secretary-General of the Defence Ministry (June-Dec. 1961); Governor Sine-Saloum Region (Dec. 1961-Dec. 1962); Chef de Cabinet at the Foreign Ministry (Dec. 1962-May 1963); Directeur de Cabinet at the Presidency (May 1963 - Dec. 1965) and Secretary-General of Government (Feb. 1964 -March 1968). In March 1968, Mr. Diouf was appointed Minister of Planning and Industry and in March 1970, he was promoted to Prime Minister.



M. Ousmane Seck  
(Bank Governor)

39  
Minister of Planning and Cooperation since March 1973. Mr. Seck was born on May 23, 1938, at Rufisque. He graduated in public law and political science from the University of Paris (1963); graduate of the National School of Taxation in Paris and graduate of the National School of Administration of Senegal (1964); assistant to the general manager in charge of fund transfers in the Ministry of Finance (April 1965 - March 1966); assistant to the Governor of the Thies region (March 1966 - March 1968); Chef de Cabinet of Mr. Abdou Diouf (then Minister of Planning) from March 1968. Mr. Seck was appointed Secretary of State attached to the Prime Minister, in charge of Planning in 1971. In the cabinet reshuffle after the elections in March 1973, the Ministry of Cooperation was added to Mr. Seck's portfolio and he was promoted to Minister.

M. Babacar Ba  
(IMF Governor)

47  
Minister of Finance since 1971, Mr. Ba was born in June 1930 at Kaolack. He became licencié des lettres (roughly equivalent to an M.A. degree in Literature) and a graduate from Ecole Nationale de la France d'Outre Mer (ENFOM). He was first Governor of Eastern Senegal; later Chef de Cabinet of Mr. Mamadou Dia (then Prime Minister). He was Director of Technical and International Cooperation in the Ministry of Foreign Affairs from 1962 to 1966; First Counselor at the Embassy of Senegal in Brussels, in charge of EEC problems, from 1966 to 1968; Chef de Cabinet of the Ministry of Foreign Affairs in 1969; and, early in 1970, Chef de Cabinet of the Presidency of the Republic and finally, Secretary General to the Presidency. Mr. Ba was appointed Minister of Finance and Economic Affairs in 1971. In March 1975, he was appointed Minister of State, in charge of Finance and Economic Affairs.

## E. TOPICS FOR DISCUSSION

Senegal is a country which traditionally has been accorded generous allocations of development assistance, including an annual average of nearly \$25 million of Bank/IDA commitments over the past five years (FY73-77). Buffered by the inflow of development assistance and reinforced by its membership in the West African Monetary Union, Senegal has been able to live somewhat beyond the modest means provided by its own geography and natural resources. It is, in short, a poor country highly dependent on two volatile export commodities, phosphate rock and groundnuts. As should be evident from the economic discussions which follow this "topics" section; the Government of Senegal is becoming expert at crisis management since financial crises have occurred in two of the past four years (1974 and 1977) and harsh adjustment has been required.

Although we realize that Senegalese officials, and most especially the President, will probably wish to raise various lending issues (and we suggest a few later in this section which might come up), we would hope that some basic economic questions might be raised with them concerning the growth assumptions they have built into their 1977-1981 Development Plan and concerning their public savings performance and its relation to creditworthiness.

Rate of Growth of the Economy. The 1977-81 Plan is based on an annual GDP growth forecast substantially in excess of 5% whereas we feel that achieving 4% would be an outstanding accomplishment (per capita growth would thus be on the order of 1.3% since the population is growing at a very fast 2.7% per annum). We differ from the Senegalese in that we are much less optimistic about the growth prospects of domestic market-oriented industry and we have little hope for some of the capital-intensive industrial schemes currently being considered by the Government (e.g., the Pahlavi project, discussed briefly below and more fully in Section F). Although full water control irrigation offers insurance against Sahelian drought and thus security of some growth, the lack of experience and basic working infrastructure in this field means high capital costs at the outset with modest returns at best unless very high value export crops are produced. A prudent strategy for irrigation development will of necessity develop more slowly than the Senegalese have planned.

We do think Senegal should gear its development strategy more towards exports although most of the incentives currently in force in the industrial sector and import-substitution motivation behind irrigation development both work against an export-oriented strategy. We do believe that with appropriate adjustments in its incentives and careful examination of the pace and methods of irrigation development, the stagnant Senegalese economy can be induced to grow. We are consistently presenting these views through a continuing economic dialogue but are not sure our views are filtering through to the highest levels of Government.

Low Public Savings. During the Annual Meeting the Senegalese delegation asked us to consider financing up to 100% of the capital costs of new development projects; the motivation behind this request was to keep



MARDI 15 NOVEMBRE 1977

- Départ pour l'aéroport

1 heures 55 - Décollage par la PANAM

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SENEGAL BRIEFING BOOK

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MR. MCNAMARA'S VISIT TO SENEGAL

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Sunday, November 13

- 21:00 arrival of Mr. and Mrs. McNamara from Banjul  
(by Gambian government car)
- Accommodations: Hotel Teranga

Monday, November 14

- 10:30 meeting with Planning Minister Ousmane Seck
- 11:30 meeting with President Senghor
- 18:00 meeting with Prime Minister Abdou Diouf
- 20:15 dinner with President Senghor
- program also likely to include:
  - early morning, at Teranga hotel, meetings with Sheikh Hamidou Kane (President of Dakar Marine and former Vice President of Canadian "International Development Research Center"), with two Senegalese journalists from Le Soleil: Bara Diouf and Moktar Kebe and possibly with Mamadou Aw, Secretary General of OMVS (Senegal River Basin Development organization).
  - early afternoon, visit to Institut de Technologie Alimentaire (Director Mrs. Basse: ITA is the most advanced African food research institute which developed inter alia methods to make domestically grown millet suitable for urban consumption. A Bank reconnaissance mission visited the institute this year to see how the Bank could help the institute implementing its millet program), and to Institut Universitaire de Technologie (Bank financed institute for training of middle level technicians).

Special program for Mrs. McNamara

- 8:30 visit to Red Cross Kindergarden
- 9:15 primary school
- 9:45 centre social de perfectionnement féminin  
(center for promotion of woman)
- 10:30 IFAN museum.

October 26, 1977



MINI GALLERY  
THIERS - M  
MOMETA S

LUNDI 14 NOVEMBRE 1977

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## Airport Arrival Statement

### SENEGAL

My visit to Senegal is the final stage in my West African tour. I am happy to be here, my fourth visit, and to meet again with President Senghor.

Two years ago, in my address to the Governors of the World Bank at their Annual Meeting, I concluded my speech with a quotation from one of President Senghor's poems.

I borrowed his lines to allude to the joint task of the rich and poor nations to improve the lives and help realize some of the fundamental aspirations of the people most in need around the world -- people "whose hopes are smashed."

During my present visit to Africa I have been heartened to observe a greatly increased awareness among governments and peoples of the urgency of this task. I believe that more conscious efforts are being made to bring the benefits of economic and social development to millions of people who had previously been by-passed. This has been especially evident in the field of rural development -- a sector of vital importance in a continent where small farmers and rural workers are numerically predominant.

up the pace of new investment despite the inability of the Government to mobilize domestic resources for its contribution. We are well aware of the problem, due in large part to the precipitous drop in phosphate prices on the world market, and we have cooperated with the Government to find short-run solutions which permit, inter alia, the continuing execution of our own projects. However, for the long run we would like to see Government arrive at a meaningful plan to progressively increase its domestic savings. We would caution at the same time against recourse to expensive Eurodollar money to meet short-run requirements.

In line with the discussion above, we have appraised, at Government's request, a technical assistance project which should help the Government focus much more sharply on its management of its public enterprises and of its portfolio of shares in mixed companies, both potential sources of substantially increased public revenues. (See the discussion on the Para-Public Project in Section G, para 3.4 and the Summary of Annual Meetings Discussions, Section G, Part 5.)

Organisation pour la mise en valeur du Fleuve Senegal (OMVS). At the time of your visit a major donors' meeting will have taken place in Dakar (November 2-4) with the Bank in attendance. Prior to this meeting there were indications that the Bank Group might be approached to help finance two major dams which are considered the core of the OMVS program: Diama (salt intrusion barrier in the delta area) and Mananthali (major upstream storage facility in Mali). As yet we have insufficient technical, economic and financial information on which to judge the viability of the dams; therefore we have instructed our delegation to say that we will review the feasibility studies when they become available and that we will concurrently continue to promote a sensible and economic pace of irrigation development through projects like the FY78 Debi-Lampsar one. (See Section G, paras 3.5 - 3.7).

Museum of African Art and Culture (Black Civilization). This is a favorite subject of President Senghor and although the Bank is not involved in the museum, he may raise it in discussion. The background to the proposal is discussed in Section F, para. 5.1.

Education. The Government is officially anxious to expand access to primary education in the rural areas. However, the items identified thus far for our FY79 Third Education Project do not accord priority to this objective. We feel that Senegal lacks a clear strategy to expand primary enrollment, and we would like the points emphasized that appraisal of this project is imminent (1st quarter of 1978), that we would like to help expand access to formal education for the rural poor, but that we are waiting for the Government to decide how to proceed. (See Section G, paras. 3.1 - 3.3).

Population Planning. You may like to raise this as a topic of interest. We feel that Government action on this front has ground to halt due to an unsympathetic Minister of Health. It could be that President Senghor is unaware of this fact. (See Section F, para. 5.2).

Pahlavi. So far we have helped to define a more realistic scope for the project and have prepared the terms of reference for a transport study. We continue to offer analytic support in hopes that the budding Irano-Senegalese cooperation which gave rise to this project will not evaporate. (See Section F, paras. 5.5 - 5.7).

The 1976 CPP for Senegal is already somewhat outdated and a new CPP is in preparation. The first four parts of the following section comprise a self contained reference brief. The CPP is attached in part five as a background document.



UPDATE TO THE COUNTRY PROGRAM PAPER1. Political Situation

1.1 In 1960, Senegal experienced a smooth transition from French colonial rule to independence. Since the former French West African territory was divided into a number of independent states, Senegal lost the following economic advantages: (i) Dakar used to be the administrative center of former French West Africa and was an important military base; (ii) many Senegalese served in the colonial administration in territories outside Senegal; (iii) Senegal's major export (groundnuts) enjoyed protection on the French market; and (iv) the first industries serving the West African market were established near Dakar.

1.2 President Léopold S. Senghor has dominated the political scene since independence. Beforehand, he was already politically influential, being a black nationalist socialist representative in the French National Assembly. He came to power with the support of the trade unions and a good part of the urban middle class.

1.3 A third political influence in the country is represented by the Muslim brotherhoods. Born out of resistance against French cultural influence, their leaders are jealously preserving their economic and spiritual leadership over their followers; this attitude is visible in their resistance to French education. President Senghor who is a Christian himself propagates a division between church and state, but must cooperate with this important power group much more than many of the young intellectuals in Dakar are willing to accept.

1.4 The French are still predominant in the modern sector of the economy. The President has succeeded in increasing Senegalese influence in this sector (mainly through a pervasive presence of the state) without losing the support of the French Government. This was partly achieved through paying former owners generously for enterprises bought by the state. The objective of the Government is to broaden its sources of foreign assistance, but French influence is deeply engrained in this society both through the educational system (French is the official language) and through large-scale French technical assistance.

1.5 President Senghor's approach to conflicts of interest is "dialogue" which is expected to lead to acceptable compromises. He has ruled the country with a minimum of political suppression and experienced only one unsuccessful coup d'état, the leader of which is again in a position of responsibility. President Senghor created a remarkably tolerant society. Ethnic affiliations and religious differences do not play a destructive role in Senegal. This is best demonstrated by the personality of the President himself. He is "Serère" which is one of the smaller ethnic groups and a Christian whereas 85 percent of the population is Muslim. However, when necessary, the President can act with surprising force and he pursues his long-term aims with remarkable persistence. Examples are: the systematic Senegalization of the society; the suppression of some student revolts in 1968 and thereafter; the recent liquidation of a large unprofitable state enterprise (fishing sector); and the recent



settlement of a railway strike (strikers were fired and reappointed when work was resumed).

1.6 Operating from a position of unchallenged leadership, President Senghor moved the national political system in 1975 from a one party system towards a three party system. In his plan there would have to be a communist left wing party and a market-oriented right wing party, both loyal to the constitution, with the President's socialist party holding the political center. The two vacancies are now filled, but the new parties reluctantly accepted the extremist profile which was offered to them. Elections will be held in April 1978. Another political innovation was the creation of the "Communautés Rurales", elected rural councils which have their own budget. After independence, the Government replaced the network of foreign traders by a highly centralized cooperative movement. The power of this institution has grown as has its inefficiency. The President is now decentralizing the central cooperative organization and increasing the participation of farmers in the political process. This coincided with a shift in income distribution in favor of the rural population.

1.7 The political situation today is determined in large part by the age of the President (71 years). Political movements that may change the character of Senegal after his death are not visible. Within his own cabinet the President has tried to diminish political rivalry by appointing the Prime Minister as his successor. However, the Minister of Finance, Mr. Babacar Ba., and the Minister of Rural Development, Adrien Senghor (a cousin of the President), are competing forcefully for the highest position. Rumors that Mr. Ba has been asked to resign circulate at least once a year. Although President Senghor enables the country to take unified action when necessary, some observers believe that the country is starting to suffer from the problems typically associated with a strong, but aging leader. Even his own ministers do not dare to challenge Senghor's policy line and sometimes welcome reports from outsiders like Bank missions as a means to get ideas across. However, considerable activity is going on outside the reach of the President; influence peddling and corruption are creeping in. Reinforcement of rational decision making is therefore of prime importance. The Minister of Finance is apparently not in a position (or not willing) to make cutbacks when this would be necessary to keep the economy sound. Eventually the necessary steps are always undertaken but often very late and after considerable pressure from outside agencies like the Central Bank of the Monetary Union and foreign donors.

## 2. The Economic Situation

### Economic Growth

2.1 Since its independence in 1960, Senegal's GDP in real terms has declined. GDP has grown at an average of 2.3 percent annually while population has grown at 2.7 percent. In the early years of independence, the country had to go through a difficult adjustment process losing its role as the administrative and economic center of former French West Africa to become a small nation of about 5 million inhabitants. In later years, the stagnation in agricultural growth slowed down the economy. Industrial growth was satisfactory. New factories were established to replace imports and process locally produced raw materials, but since the domestic market and the supply of raw materials are only growing slowly, industrial growth will have to level off if the existing pattern of slow economic growth continues.

2.2 The highly unfavorable climate of Senegal is a permanent underlying reason for poor performance in rainfed agriculture; with a wet season lasting only 3 or 4 months a year and with highly irregular rainfall in this short period, rainfed agriculture cannot become the base for long-term self-sustained economic growth. Some more specific reasons for the bad agricultural performance between 1960 and 1975 were:

- (i) The Government's new cooperative structure for the sector proved to be less efficient;
- (ii) Senegal lost protection for its groundnuts on the French market;
- (iii) Groundnuts came under increasing competition from soybean and palm oil;
- (iv) The Government used the groundnut sector as an important source of public savings leading to a disproportionately heavy de-facto taxation on this product; and
- (v) a series of droughts hit the country between 1968 and 1973.

In 1974 the Government increased the prices paid to farmers for groundnuts and weather conditions improved which resulted in two above-average crops. However, even assuming optimal Government policies, in the next decade one has to expect diminishing returns on further public spending in rainfed agriculture since all arable land will gradually be put to use and the main rainfed crops will suffer from constraints on the marketing side. Furthermore, as regards farming of arid regions, international research for agriculture is far from any break-through in technology.



2.3 In the greater part of Senegal, agriculture can only be developed on the basis of irrigation. In view of the long period required to implement an irrigation strategy, the ongoing activities in this field should be accelerated. Returns on irrigation projects are low at the moment because the domestic market for high value crops is narrow and farmers are not very sophisticated. The recommended strategy is therefore to promote labor-intensive irrigation projects designed to serve the domestic market and start research to develop more export-oriented cropping patterns. With the above combination of development of rainfed and irrigated agriculture, the sector could be expanded to reach a trend of 3.5% growth annually.

2.4 The substantial growth of the domestic market and increased supplies of agricultural raw materials that would follow from more success in agricultural policy would also expand the possibilities for industry. Expansion of deep sea fishing would have the same positive effects. However, this would not achieve any more than the industrial growth of 5% a year which has been reached in the past. To improve on this momentum, export-oriented industries should be developed independent of domestic raw material supply. Since Senegal is not competitive in international markets at the moment, average production costs expressed in foreign currency should be lowered. Fundamental changes are also required in the incentive structure which now favors production for the domestic market.

2.5 The problems which Senegal is facing would to a large extent be resolved by devaluation of its currency. Unfortunately, this option is not open to the Government. Senegal is a member of a monetary union and the five other members (among which is the Ivory Coast) are unlikely to accept such a measure. We advocate therefore the introduction of export subsidies as a second best solution. Local entrepreneurs and foreign investors are only expected to respond slowly to such incentives and it may well take until the 1990s before light export-oriented industries have become a substantial part of the economy. During the 1980s such industry could already be important in reducing unemployment in Dakar. The Government's strategy to accelerate industrialization through some large capital-intensive industrial projects seems inappropriate in view of the abundant labor supply and scarcity of capital, managers and high-level technicians. So far Government plans have proven unrealistic. However, the prospect of finding some good projects in this category should not be excluded altogether.

2.6 With a strategy of full utilization of all potential in rainfed agriculture, acceleration of irrigation and increasing export orientation of industry an overall economic growth of 4% a year would be feasible. The Senegalese Plan calls for 5.8% a year in the 1977-85 period and 8.9 percent between 1985 and 2000. President Senghor imposed these over-optimistic projections on the planners. This optimistic perspective obscures the real problems of the country in official documents.



## Current Problems

2.7 The present economic situation is still determined by the dramatic collapse of the international phosphate market in 1976. In 1973, market conditions for this export commodity became so favorable that phosphate rock-producing countries used to compare themselves with the OPEC nations. The Government of Senegal used this new prosperity to increase public investments, buying substantial shares in foreign enterprises working in Senegal and improving rural incomes without cutting back on urban incomes. The subsequent fall in phosphate prices stripped the Government of its budgetary savings and weakened the balance of payments to an alarming extent. Foreign commercial banks became reluctant to finance budgetary deficits with Eurodollar loans. Despite this misfortune, the Government continued very expansionary policies which came to a grinding halt at the end of 1976.

2.8 At that time the Government took the following measures to put its public finances on a sounder footing:

- (i) it suspended all new capital expenditures and reduced expenditures on supplies;
- (ii) it submitted most imports from the EEC to a moderate import duty (5 percent);
- (iii) it increased sales taxes considerably (from 9.8 to 15.9 percent);
- (iv) it stopped paying consumer subsidies on flour;
- (v) it paid off its huge debts to the organization of farmers cooperatives (ONCAD).

The cashflow in the current fiscal year was greatly improved by the positive effects on the Stabilization Fund of a 40 percent price increase for groundnuts on the world market.

2.9 The tax increases will augment Government revenues in 1976 but the new budget that was presented in June 1977 showed such increases in recurrent expenditures that planned budgetary savings again stood at zero. Although ONCAD paid off its sizeable debts, total credit outstanding continued to grow due to easy credit policies. In recent negotiations for an allocation of the IMF Trust Fund the Government agreed to reduce recurrent expenditures by roughly 4 percent and to accept some credit restrictions.

2.10 The policies of the last two years give the impression that the Government is trying to finance its public investment program from generous foreign aid, completed with Eurodollar loans and surpluses in the Stabilization Fund. Only after considerable pressure from the IMF did Government accept that some budgetary savings were required. In a longer-term perspective, budgetary savings should replace the heavy levies on the groundnut farmer. After the recent fiscal measures no further tax increases can be expected in the next few years, and higher budgetary savings will have to come from strict containment of current expenditures.



This situation will limit the scope for new social programs. Foreign donors should only finance such new programs if they can also absorb the bulk of the recurrent costs. However, they should continue to offer financial support for foreign technical assistance.

2.11 The capacity to generate budgetary savings is also undermined by past Eurodollar borrowings. Senegal's balance of payments can support \$30 to \$50 million borrowing on commercial terms. We recommend that commercial loans be used for the financing of projects than can generate their own debt servicing and that the Government should never guarantee these loans for the full 100 percent.

#### Prospects

2.12 The major change in our evaluation of Senegal's prospects since the last CPP is in the status of the projects the Government is planning in heavy industry and mining, known as the Pahlavi Complex. Most of the components of this complex have had to be scaled down or postponed. Most relevant for the macro-economic prospects is the Government's decision not to double the phosphate mining capacity, a decision taken on the grounds that the deposits are too small for such high mining rate and the world market too depressed to absorb additional quantities. Instead we recommend that the Government should seek to improve the recovery rate from the ore and to invest in further processing of phosphate rock.

2.13 Because export projections have had to be revised downwards, the entire scenario has also been scaled down. The main differences are the following:

- (i) projected long-term economic growth was reduced from 4.5 percent to 4 percent;
- (ii) projected overall investments were reduced from 18 percent of GDP to 16 percent;
- (iii) the resulting gap in the balance of payments in the 1978-1983 period will be on the order of \$200 million a year as compared to \$125 million in the CPP covering the 1976-1980 period;
- (iv) concessionary aid from traditional donors is developing more favorably than expected which allowed us to increase this projected flow from roughly \$100 million a year in the CPP to \$150 million in the new forecast;
- (v) additional non-concessionary aid should be revised from \$25 million in the CPP to \$50 million in the new forecast;
- (vi) whereas the debt service ratio in the CPP projection was increasing from the present 7 percent of exports of goods and non-factor services to 11 percent in 1970 and declining thereafter, in the new projections this ratio would stay at about 11 percent.



3. Foreign Assistance and Debt (as of December 31, 1976)

(in millions of US dollars)

|                               | <u>Disbursed</u> | <u>Undisbursed</u> |
|-------------------------------|------------------|--------------------|
| <u>Suppliers Credits</u>      | <u>12.0</u>      | <u>--</u>          |
| France                        | 9.2              | --                 |
| W. Germany                    | 2.6              | --                 |
| Italy                         | 0.2              | --                 |
| <u>Private Bank Credits</u>   | <u>120.2</u>     | <u>7.4</u>         |
| France                        | 4.4              | 6.0                |
| W. Germany                    | 0.4              | --                 |
| Netherlands                   | 0.3              | 0.6                |
| Italy                         | 11.8             | 0.8                |
| Kuwait                        | 6.9              | --                 |
| Switzerland                   | 1.1              | --                 |
| USA                           | 4.5              | --                 |
| Multiple lenders              | 90.8             | --                 |
| <u>Privately Placed Bonds</u> | <u>3.8</u>       | <u>--</u>          |
| <u>Other Private</u>          | <u>19.2</u>      | <u>--</u>          |
| France                        | 5.0              | --                 |
| Kuwait                        | 10.0             | --                 |
| USA                           | 4.2              | --                 |
| <u>Multilateral Loans</u>     | <u>77.1</u>      | <u>98.5</u>        |
| ADB                           | --               | 10.4               |
| EDF                           | 1.1              | --                 |
| EIB                           | 2.3              | 5.3                |
| IBRD                          | 14.6             | 39.2               |
| IDA                           | 55.4             | 42.0               |
| SAFA (Arab)                   | 3.7              | --                 |
| BADEA                         | --               | 1.6                |
| <u>Bilateral</u>              | <u>100.2</u>     | <u>140.1</u>       |
| Canada                        | 4.8              | 8.8                |
| China                         | 2.4              | 50.8               |
| Denmark                       | 5.2              | 4.1                |
| France                        | 45.5             | 35.4               |
| W. Germany                    | 33.4             | 15.7               |
| Iran                          | 2.2              | 8.7                |
| Spain                         | --               | 14.6               |
| USA                           | 3.1              | --                 |
| USSR                          | 3.6              | 2.0                |
| <u>TOTAL</u>                  | <u>332.6</u>     | <u>246.3</u>       |

2.14 From the new scenario the following policy conclusions can be drawn:

- (i) Senegal has to increase its efforts in preparing feasible and productive projects to absorb the increased flow of foreign aid;
- (ii) it has to accelerate project implementation to reduce the \$267 million pipeline of undisbursed loans;
- (iii) it has to preserve its creditworthiness to attract the \$50 million commercial loans; and
- (iv) Foreign donors should maintain the level of grants in real terms and soften their blend somewhat.

The projections are particularly sensitive to the projected savings rate. Because of the structure of the Senegalese economy most additional savings will have to be secured by the public sector. In view of the need to relieve the tax burden on the farmers and the need for social programs in rural areas (only 60 percent of the children born in the rural areas reach the age of five) we did not increase the overall savings projections but maintained the historical trend.

#### Bank Strategy

2.15 Since preparation of a new CPP has just started, no new Bank strategy is yet available. The following issues have to be addressed. Should the Bank Group:

- (i) keep a profile of broad involvement in Senegal implying a fairly high ratio of staff time compared to the amount of dollars lent;
- (ii) associate itself closer with the irrigation policy by more frequent projects in this field;
- (iii) keep a presence in the Pahlavi Project;
- (iv) soften the blend for Senegal;
- (v) be more flexible with local cost financing; and
- (vi) maintain our previous share in overall foreign aid?

There are some good arguments which favor a Bank strategy along these lines.

SENEGAL - Foreign Aid Commitments

|  | Actuals     |             |             |              |             |              |              | Projections  |              |              |              |              |
|--|-------------|-------------|-------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  | 1970        | 1971        | 1972        | 1973         | 1974        | 1975         | 1976         | 1977         | 1978         | 1979         | 1980         | 1985         |
| <u>Official Grants</u>   | <u>47.3</u> | <u>64.2</u> | <u>56.6</u> | <u>72.9</u>  | <u>77.7</u> | <u>81.1</u>  | <u>84.7</u>  | <u>94.9</u>  | <u>106.8</u> | <u>119.9</u> | <u>134.3</u> | <u>160.2</u> |
| Current Grants   | 35.4        | 45.6        | 48.3        | 53.8         | 58.3        | 56.4         | 55.9         | 62.9         | 70.8         | 79.9         | 90.3         | 94.7         |
| Capital Grants   | 11.9        | 18.6        | 8.3         | 19.1         | 19.4        | 24.7         | 28.8         | 32.0         | 36.0         | 40.0         | 44.0         | 65.5         |
| <u>Loans</u>   | <u>8.4</u>  | <u>31.3</u> | <u>49.1</u> | <u>177.8</u> | <u>63.8</u> | <u>112.7</u> | <u>113.2</u> | <u>143.2</u> | <u>215.7</u> | <u>228.6</u> | <u>235.4</u> | <u>280.4</u> |
| IBRD   | --          | --          | 15.6        | 0.6          | 3.0         | 7.0          | 25.8         | 23.2         | 20.0         | 40.0         | 30.0         | 32.8         |
| IDA  | 2.1         | 7.0         | 11.2        | 23.7         | --          | 25.0         | 10.5         | --           | 18.0         | 20.0         | 15.0         | 32.8         |
| ADF  | --          | --          | --          | --           | 4.8         | 6.1          | 5.7          | 5.0          | 5.0          | 5.0          | 7.0          | 8.6          |
| EIB  | --          | 1.5         | --          | --           | --          | --           | 5.3          | 8.0          | 8.0          | 10.0         | 10.0         | 13.1         |
| Other Multilateral   | --          | --          | 1.1         | 3.1          | 5.4         | 3.7          | --           | --           | --           | --           | --           | --           |
| France   | 2.4         | 7.2         | 7.1         | 5.0          | 16.1        | 11.4         | 26.8         | 27.0         | 27.0         | 28.0         | 30.0         | 43.5         |
| Germany  | 2.2         | --          | --          | --           | 12.7        | 2.9          | 7.1          | 9.0          | 9.0          | 10.0         | 10.0         | 14.4         |
| Other European   | --          | 2.9         | 3.6         | 5.1          | --          | 24.2         | --           | 4.0          | 15.0         | 5.0          | 5.0          | 6.1          |
| Canada and USA   | --          | --          | 3.6         | 1.7          | 4.2         | 4.5          | 3.9          | 5.0          | 6.0          | 6.0          | 7.0          | 9.2          |
| China  | --          | --          | --          | 50.3         | --          | --           | --           | --           | --           | --           | --           | --           |
| OPEC countries   | --          | --          | --          | 2.4          | 8.5         | --           | 1.6          | 20.0         | 20.0         | 23.0         | 23.0         | 31.4         |
| Private Banks  | --          | 10.5        | 5.9         | 75.4         | 8.2         | 28.0         | 37.7         | 42.0         | 39.7         | 62.6         | 63.4         | 88.5         |
| Suppliers  | 1.7         | 2.2         | 1.0         | 10.5         | 0.9         | --           | --           | --           | --           | --           | --           | --           |
| Senegal's Share in loans to OMVS   | --          | --          | --          | --           | --          | --           | --           | --           | 48.0         | 19.0         | 35.0         | --           |
| <u>Public Debt Service</u>   |             |             |             |              |             |              |              |              |              |              |              |              |
| <u>Debt Service in Millions of US\$</u>                                    | <u>6.0</u>  | <u>12.2</u> | <u>13.0</u> | <u>29.6</u>  | <u>33.0</u> | <u>37.9</u>  | <u>42.3</u>  | <u>55.6</u>  | <u>69.6</u>  | <u>78.7</u>  | <u>93.2</u>  | <u>167.2</u> |
| Interest   | 1.4         | 4.4         | 4.6         | 7.2          | 13.6        | 17.6         | 17.7         | 22.7         | 25.9         | 28.9         | 34.2         | 62.0         |
| Amortization   | 4.6         | 7.8         | 8.4         | 22.4         | 19.4        | 20.3         | 24.6         | 32.9         | 43.7         | 49.8         | 59.0         | 105.2        |
| <u>Debt Service in percent of exports of goods and non-factor services</u> | <u>2.5</u>  | <u>5.3</u>  | <u>3.9</u>  | <u>8.3</u>   | <u>5.5</u>  | <u>5.6</u>   | <u>6.8</u>   | <u>8.2</u>   | <u>9.8</u>   | <u>10.3</u>  | <u>11.0</u>  | <u>10.5</u>  |
| <u>Debt Service in percent of debt outstanding in previous year</u>        | <u>6.8</u>  | <u>11.8</u> | <u>10.3</u> | <u>21.3</u>  | <u>16.3</u> | <u>15.6</u>  | <u>14.8</u>  | <u>16.7</u>  | <u>15.2</u>  | <u>14.1</u>  | <u>13.5</u>  | <u>11.6</u>  |

1/ The increase in average terms is due to quickly disbursing Eurodollar loans; utilization of undisbursed concessionary aid will gradually reduce the average terms again.



#### 4. Subject Briefs on Special Issues

##### a) Museum of African Art and Culture (Black Civilization)

4.1 The Museum is the personal project of President Senghor, and would be part of an ambitious cultural complex in Dakar. Very tentative estimates of the cost of the museum alone range from US\$4 to US\$18 million. In the past, the President requested Bank support for the museum, but preliminary feasibility studies had not been done by the time of appraisal of the Petite Cote Tourism Project approved earlier this year. Even then, there was some uncertainty in-house as to whether we should be involved in this effort as it would be very difficult to provide an economic justification for it. The Decision Meeting for the Petite Cote Project discussed whether to include feasibility studies for the museum in the project. It was decided not to include studies because the Government had not been able to define its own thinking on the scale of the museum, and because it had failed to provide the promised preliminary feasibility studies. The meeting agreed that the Bank would be prepared to reconsider the issue if at a later date the Government expressed a strong and better defined interest in having the Bank finance only the studies and not the museum itself, and if the Government agreed to limit the program of the museum. The Government did not take any initiatives in this respect. President Senghor has mentioned the museum several times in communications addressed to you, most recently in his letter of June 17, 1977; in your letter acknowledging this latest communication you did not respond to President Senghor's mention of the museum.

##### b) Population Planning

4.2 According to Bank estimates, the population of Senegal was five million in mid-1975, and the average annual rate of growth was 2.7%. With a growth rate of this level, the present population would double in about 26 years. Both the birth rate (48 per 1,000 population) and the death rate (24 per 1,000 population) are extremely high and as 43% of the population is under 15 years of age, there is a built-in momentum for further growth for years to come. The present high mortality and fertility are unfavorable to development, and produce considerable wastage of human life and resources.

4.3 These demographic and health problems of Senegal apparently induced the Government to formally declare a national population policy at the end of 1976. A commission was appointed to start work on what would eventually have become a national family planning program with financial assistance from USAID and the Pathfinders International, good progress was being made, particularly on development of mass communication and information programs in local languages. However, this action ground to a halt in May 1977 with the appointment of a new Minister of Health who is reportedly against the concept of family planning, although the President of the country has personally recognized the need for a population program. The medical lobby in Senegal is very powerful, and has worked through the political caucus against recognition of a population program. Basic medical education has been for years in the hands of pro-natalist professionals from France.



However, more recently there have been some efforts at curriculum changes that have resulted in the introduction of courses in 'family health' at the medical school and in the nursing schools.

4.4 The present poor health status, especially of women in reproductive years and children, which is partly a consequence of high fertility, but also aggravated by other socio-economic factors, should be addressed more effectively than it has been up to now. We recognize that the population issue in Senegal must be raised very tactfully. Nevertheless, the Government could make a positive start by providing a system of basic health, nutrition and population (child-spacing) services in rural areas, but this could be done only if a greater share of public health expenditures were allocated to rural inhabitants. A very rough estimate of health expenditures in Senegal suggest that for every \$5 spent on health care, only 15¢ is allocated to rural services.

c) Pahlavi

4.5 In May 1976 the Ministers of Plan of Iran and Senegal met with you to request Bank assistance for a minerals/petroleum port associated with the proposed Pahlavi Project. The Pahlavi Project, to be implemented by a joint Iranian-Senegalese venture company (IRASENCO), was composed of a new phosphate mine, petroleum refinery and ammonia and urea plant. You told the two ministers that Bank involvement would depend on: (i) the economic, financial and technical viability of the project; (ii) the amount of IBRD funds available for Senegal; and (iii) the limitations on IBRD lending imposed by the Bank's capital.

4.6 After a series of discussions with both Governments (welcomed by Iran, much less so by Senegal which considers Pahlavi a "political" project), we have helped to alter the scope of the industrial units so that what is now being considered (expansion of an existing phosphate mine, a new phosphoric acid plant and the refinery) is more realistic, although its economic and financial viability is still to be proven. A major issue has been the Senegal Government's insistence on building a new port at Sedar (named after President Senghor and located north of Dakar) instead of using the existing Port of Dakar. President Senghor sees Port Sedar as a new pole of development for the country and has taken personal interest in the architectural design of the new town to be built there and named after the Empress of Iran. We do not believe that these capital intensive industrial projects can form a new pole of development even if they are justified or that Government can afford to build a new town. In addition it remains to be proven that the industrial units can pay for the costly new port infrastructure or that use of the Port of Dakar is less viable than a new port.

4.7 Iran and Senegal have recently asked the Bank (in large part at Iran's insistence) to study the transport needs of the Pahlavi Project, and the terms of reference agreed upon by Senegal will allow consideration of Port Sedar but also other transport options such as Dakar. President Senghor should be aware that other options are being studied, but it is possible that he is not. Iran has agreed last June<sup>1/</sup> to finance 50 percent

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1/ At a meeting in Teheran presided over by the Ministers of Plan of both countries and just prior to a visit to the Shah by President Senghor; since then all of the high Iranian Government officials connected with the project have been replaced and the validity of the June commitments is somewhat in doubt.

of the cost of the study up to \$250,000 and pledged \$30 million towards the infrastructure in addition to the \$80 million in equity it had pledged for IRANSENCO, half in the form of a loan to Senegal for its share of the equity. Progress on the industrial units remains slow as there is a lack of coordination of effort within the Government of Senegal and up to now no serious attempt to study the transport infrastructure needs has been made.



## SENEGAL

Country Program Paper

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Postscript

55. The paper was reviewed under Mr. Knapp's chairmanship on June 11, 1976. The following conclusions were reached:

- a) The project composition of the proposed lending program was accepted, including the Reserve list.
- b) Concern expressed about Senegal's structural balance of payments problems and recurring difficulties in mobilizing public savings militated against increasing IBRD lending to Senegal as proposed, despite the buffer provided by the West African Monetary Union of which Senegal is a member. The IBRD lending program for FY77-81 was accordingly reduced from the \$153 million (net of TW) proposed to \$117 million (net of TW). The proposed FY77 Third Window allocation of \$5.0 million was approved.
- c) In view of the relatively high per capita proposed IDA allocation in FY78-81, the proposed IDA lending program was also reduced from \$113 million to \$98 million.
- d) Project amounts in the FY77 and FY78 lending program were accordingly adjusted as follows:
  - (i) In FY77, a \$5 million TW allocation was approved for Ports II instead of DFC as proposed in the CPP; \$5 million of IBRD funds was also approved for Ports II reducing the total Bank contribution to this project from \$20 million to \$10 million as cofinancing from BADEA would in all likelihood be available to make up the difference;
  - (ii) In FY78 the Regional Water Supply project was reduced from IBRD \$15 million to \$10 million. The amount of this project would be subject to review and dependent on the extent of cofinancing available; every effort would be made to secure as much cofinancing as possible.

56. A revised lending program incorporating the decision of the meeting is attached.

Western Africa Region  
June 24, 1976

Population: 5.0 million (1975)  
 CNF Per Capita: \$220 (1975)  
 Area: 200,000 sq. mi.  
 Literacy: 10-15% Adult Pop. (1972)

SENEGAL: ACTUAL AND PROPOSED LENDING THROUGH FY81  
 (\$ Million)

Attachment I

|                                    |               | Through FY69 | Actual |      |       |                    |                    | Current FY76       | Program |       |                    |       |        | Total FY69-73 | Total FY74-78 | Total FY76-80 | Total FY77-81 | Reserve Projects |
|------------------------------------|---------------|--------------|--------|------|-------|--------------------|--------------------|--------------------|---------|-------|--------------------|-------|--------|---------------|---------------|---------------|---------------|------------------|
|                                    |               |              | FY70   | FY71 | FY72  | FY73               | FY74               |                    | FY75    | FY77  | FY78               | FY79  | FY80   |               |               |               |               |                  |
| Groundnut I (Agricultural Credit)  | IBRD          | 3.5          |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Groundnut II (Agricultural Credit) | IDA           | 6.0          |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Groundnut III (Sine Saloum I)      | IDA           |              |        |      | 8.2   |                    | 7.0                |                    |         |       |                    |       |        |               |               |               |               |                  |
| Groundnut III (Sine Saloum II)     | IBRD          |              |        |      |       |                    | 7.0                |                    |         |       |                    |       |        |               |               |               |               |                  |
| Groundnut IV (Sine Saloum II)      | IDA           |              |        |      |       |                    |                    |                    |         | 10.0  |                    |       |        |               |               |               |               |                  |
| Rice (Sedhiou I)                   | IDA           |              | 3.7    |      |       |                    |                    | 6.5                |         |       |                    |       |        |               |               |               |               |                  |
| Rice (Sedhiou II)                  | IDA           |              |        |      |       |                    |                    |                    |         |       |                    |       | 10.0   |               |               |               |               |                  |
| Lower Casamance                    | IDA           |              |        | 1.4  |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Land Settlement (Terres Neuves I)  | IDA           |              |        |      |       |                    |                    | 2.0                |         |       |                    |       |        |               |               |               |               |                  |
| Land Settlement (Terres Neuves II) | IDA           |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Irrigation I                       | IDA           |              |        |      | 4.5   |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Irrigation II (Debi Lampar Eng.)   | IDA           |              |        |      |       |                    | 1.0                |                    |         |       |                    |       |        |               |               |               |               |                  |
| Irrigation III (Debi Lampar)       | IDA           |              |        |      |       |                    |                    |                    | 18.0    |       |                    |       |        |               |               |               |               |                  |
| Irrigation IV                      | IDA           |              |        |      |       |                    |                    | 4.2                |         |       |                    |       | 15.0   |               |               |               |               |                  |
| Livestock I                        | IDA           |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Livestock II                       | IDA           |              |        |      |       |                    |                    |                    |         |       | 5.0 *              |       |        |               |               |               |               |                  |
| Rural Development                  | IDA           |              |        |      |       |                    |                    |                    |         |       | 10.0 *             |       |        |               |               |               |               |                  |
| Fisheries                          | IBRD          |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Vegetable Production               | IBRD          |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Drought Relief                     | IDA           |              |        |      |       |                    | 3.0 <sup>1/</sup>  |                    |         |       |                    |       |        |               |               |               |               | 5.0 (FY80)       |
| Education I                        | IDA           |              | 2.0    |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Education II                       | IDA           |              |        |      |       |                    | 15.0 <sup>1/</sup> |                    |         |       |                    |       |        |               |               |               |               |                  |
| Education III                      | IDA           |              |        |      |       |                    |                    |                    |         | 20.0  |                    |       |        |               |               |               |               |                  |
| Telecommunications I               | IBRD          |              |        |      | 6.3   |                    |                    |                    |         |       |                    |       |        |               |               |               |               | 10.0 (FY78)      |
| Telecommunications II              | IBRD          |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Regional Water Supply I            | IBRD          |              |        |      |       |                    |                    |                    |         |       | 10.0 <sup>2/</sup> |       |        |               |               |               |               |                  |
| Regional Water Supply II           | IBRD          |              |        |      |       |                    |                    |                    |         |       |                    |       | 10.0   |               |               |               |               |                  |
| Regional Sewerage                  | IBRD          |              |        |      |       |                    |                    |                    |         |       | 5.0                |       |        |               |               |               |               |                  |
| DFC - SOFISEDIT I                  | IBRD          |              |        |      |       | 3.0                |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| DFC - SOFISEDIT II                 | IBRD          |              |        |      |       |                    |                    |                    | 4.0     |       |                    |       | 5.0    |               |               |               |               |                  |
| DFC - SOFISEDIT III/SSI            | IBRD          |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Tanker Repair I                    | IBRD          |              |        |      |       | 0.6                |                    |                    |         |       |                    |       |        |               |               |               |               | 25.0 (FY79)      |
| Tanker Repair II                   | IBRD          |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               | 20.0 (FY80)      |
| Four Farah Fahlavi                 | IBRD          |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Tourism I                          | IBRD          |              |        |      |       |                    |                    |                    | 13.0    |       |                    |       | 10.0   |               |               |               |               |                  |
| Tourism II                         | IBRD          |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Railways                           | IDA           | 9.0          |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Railway                            | IBRD          |              |        |      | 6.4   |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Railway                            | IDA           |              |        |      | 3.2   |                    |                    |                    |         |       | 10.0 *             |       |        |               |               |               |               | 15.0 (FY81)      |
| Railway                            | IBRD          |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Palenq Iron Ore                    | IBRD          |              |        |      |       | 3.0                |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Airport                            | IBRD          |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Highways I                         | IDA           |              | 2.1    |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Highways II                        | IDA           |              |        |      |       | 8.0                |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Highways III                       | IBRD          |              |        |      |       |                    | 15.0               |                    |         |       |                    |       |        |               |               |               |               |                  |
| Highways IV                        | IBRD          |              |        |      |       |                    |                    |                    |         |       | 10.0               |       |        |               |               |               |               |                  |
| Feeder Roads I                     | IBRD/TW       |              |        |      |       |                    | 6.6                |                    |         |       |                    |       | 10.0 * |               |               |               |               |                  |
| Feeder Roads II                    | IBRD          |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Port I                             | IBRD          |              |        |      |       |                    |                    |                    | 13.0    |       |                    |       |        |               |               |               |               |                  |
| Port II                            | IBRD/TW       | 4.0          |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               | 15.0 *           |
| Port III                           | IBRD          |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Cambie River Bridge/Dam            | IBRD          |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               | 10.0 (FY81)      |
| Urban I                            | IDA           |              |        |      | 8.0   |                    |                    |                    |         |       |                    |       | 15.0   |               |               |               |               |                  |
| Urban II                           | IDA           |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Interim Urban                      | IDA           |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               | 10.0 (FY78)      |
| LENDING PROGRAM                    | IBRD (TW)     | 7.5          | -      | -    | 6.4   | 9.3                | 3.6                | 7.0                | 21.6    | 27.0  | 20.0               | 25.0  | 25.0   | 25.0          | 19.2          | 79.2          | 118.6         | 122.0            |
| (of which TW)                      | IDA           | -            | -      | -    | -     | -                  | -                  | -                  | (6.6)   | (5.0) | -                  | -     | -      | -             | -             | (11.6)        | (11.6)        | (5.0)            |
| Total                              | IBRD          | 15.0         | 2.1    | 2.1  | 11.2  | 20.7               | 3.0                | 23.0               | 12.5    | -     | 18.0               | 25.0  | 25.0   | 30.0          | 47.1          | 56.6          | 60.2          | 95.0             |
| (of which IDA)                     | IDA           | 15.0         | 2.1    | 2.1  | 17.6  | 30.0               | 6.6                | 30.0               | 32.1    | 77.0  | 38.0               | 30.0  | 30.0   | 55.0          | 66.1          | 138.7         | 189.1         | 220.0            |
| No. (of which IDA)                 | No.           | 3            | 1      | 3    | 2     | 5                  | 2                  | 1                  | 5       | 3     | 3                  | 5     | 5      | 5             | 12            | 16            | 21            | 21               |
| (of which TW)                      | (of which TW) | (1)          | (1)    | (3)  | (1)   | (3)                | -                  | (1)                | (3)     | (-)   | (1)                | (2)   | (2)    | (3)           | (8)           | (8)           | (8)           | (8)              |
| Lending Program                    |               | 28.6         | 2.4    | 7.2  | 15.9  | 24.5               | 5.0                | 21.1               | 22.7    | 17.0  | 22.8               | 28.6  | 27.2   | 28.6          | 62.1          | 88.6          | 118.3         | 124.2            |
| In 1974 constant prices            |               |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Commitment Deflator                |               | 78.6         | 87.8   | 98.8 | 110.7 | 122.4              | 132.7              | 141.9              | 150.4   | 158.4 | 166.4              | 174.7 | 183.5  | 192.6         |               |               |               |                  |
| Standby Projects                   | IBRD          |              |        |      |       |                    |                    |                    |         | 20.0  | 10.0               | 10.0  | 15.0   | ...           |               |               |               |                  |
| Total                              | IDA           |              |        |      |       |                    |                    |                    |         | -     | 5.0                | -     | -      | ...           |               |               |               |                  |
| No.                                | Total         |              |        |      |       |                    |                    |                    |         | 20.0  | 15.0               | 10.0  | 15.0   | ...           |               |               |               |                  |
|                                    | No.           |              |        |      |       |                    |                    |                    |         | 2     | 2                  | 1     | 1      | ...           |               |               |               |                  |
| Commitments from Other Sources:    |               |              |        | 1.0  | 1.0   | 2.0                | 10.0               | 10.0               | 5.0     | 4.0   | 4.0                | 4.0   | 4.0    | 4.0           |               |               |               |                  |
| Other multilateral                 |               |              |        |      |       |                    |                    |                    |         |       |                    |       |        |               |               |               |               |                  |
| Bilateral of which:                |               | 2.0          | 2.0    | 7.0  | 7.0   | 5.0                | 17.0               | 3.0                | 14.0    | 9.0   | 10.0               | 10.0  | 11.0   | 12.0          |               |               |               |                  |
| France                             |               | -            | 2.0    | -    | -     | -                  | 13.0               | -                  | 13.0    | 8.0   | 8.0                | 8.0   | 9.0    | 10.0          |               |               |               |                  |
| Germany                            |               | -            | -      | -    | -     | -                  | 4.0                | 6.0                | 6.0     | 6.0   | 6.0                | 6.0   | 6.0    | 6.0           |               |               |               |                  |
| USA                                |               | -            | -      | -    | 2.0   | -                  | -                  | 5.0                | 40.0    | 40.0  | 40.0               | 41.0  | 42.0   | 44.0          |               |               |               |                  |
| OPEC countries                     |               | -            | -      | 3.0  | 7.0   | 52.0 <sup>3/</sup> | -                  | 5.0                | 5.0     | 9.0   | 10.0               | 11.0  | 12.0   | 12.0          |               |               |               |                  |
| Other bilateral                    |               | -            | -      | -    | -     | -                  | -                  | -                  | -       | -     | -                  | -     | -      | -             |               |               |               |                  |
| Commercial borrowing               |               | 3.0          | 1.0    | 14.0 | 7.0   | 84.0               | 6.0                | 47.0 <sup>4/</sup> | 39.0    | 51.0  | 38.0               | 40.0  | 27.0   | 25.0          |               |               |               |                  |

<sup>1/</sup> Amount is subject to review and dependent on the extent of cofinancing that becomes available.  
<sup>2/</sup> In calendar years.  
<sup>3/</sup> Of which US\$44 million from the People's Republic of China to finance imports of Chinese surpluses (nothing disbursed so far).  
<sup>4/</sup> Includes US\$20 million line of credit from Kuwait.  
 \* Standby project

WAZDC  
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Final Version

COUNTRY PROGRAM PAPER

SENEGAL

IBRD/IDA Lending Program b/  
(Current US\$ Million)

|                      |                |           | FY<br>69-73 | FY<br>74-78 | FY<br>77-81 |
|----------------------|----------------|-----------|-------------|-------------|-------------|
| 1975 Population:     | 5.0 million /a | IBRD (TW) | 19.2        | 94.2 (10.6) | 157.0 (4.0) |
|                      |                | IDA       | 47.1        | 56.5        | 113.0       |
| 1975 per capita GNP: | \$320 /a       | Total     | 66.3        | 150.7       | 270.0       |

Current population growth rate: 2.7% p.a.

No. of Loans/  
Credits

12      16      21

No. of Loans/Credits  
per mln. pop.

2.4      3.2      4.2

Current Exchange Rate: CFAF 225 = US\$1.00

Average Lending Per Capita Per Annum  
Current \$ (Const. FY74 \$)

|          |       |       |       |
|----------|-------|-------|-------|
| IBRD/IDA | 2.7   | 6.0   | 10.8  |
|          | (2.5) | (3.9) | (6.1) |
| IDA      | 1.9   | 2.3   | 4.5   |
|          | (1.8) | (1.5) | (2.5) |

/a In a recent demographic study on Senegal, Bank experts found under-enumeration of children in the last population survey and increased the existing population estimate from 4.3 million to 5.0 million. Per capita GNP for 1975 on the old basis would have been \$358.

/b The FY75-79 lending program proposed in this CPP compares with the program for the same period approved at the last CPP review in July 1974 as follows:

|  | FY75-79 Lending Program |             |          | Percentage Change    |        |
|--|-------------------------|-------------|----------|----------------------|--------|
|  | App'd<br>*              | App'd<br>** | Proposed | Prpsd./Approved<br>* | **     |
| No. of Loans and Credits                   | 18                      | 17          | 19       | + 5.5%               | +11.2% |
| Current \$ Million                         | 202.0                   | 172.0       | 204.1    | + 1.0%               | +18.7% |
| Constant FY74 \$ Million                   | 128.4                   | 109.5       | 127.2    | - 1.0%               | +16.2% |
| Per Capita per annum<br>(Constant FY74 \$) | 5.14                    | 4.38        | 5.09     | - 1.0%               | +16.2% |

\* Including the Program Loan and the Tanker Repair Project.

\*\* Excluding the Tanker Repair Project.

## A. INTRODUCTION

1. The last CPP for Senegal was reviewed by Management in July 1974, and the last economic report was issued to the Executive Directors in August 1973 following a basic economic mission which visited the country in 1972. A subsequent mission visited Senegal in the Fall of 1974 to report on the financial situation; their conclusions are reflected in a green cover report "The Financial Situation of Senegal" issued in June 1975. At the moment the Government is well along in the preparation of its next Four Year Plan. In response to Government's request for assistance, we are carrying out a phased economic work program which will culminate in a basic economic mission this Fall. The findings of this mission will be reflected in a full CPP next year which will evaluate the Government's development strategy, and assess feasible long-term targets and creditworthiness.

2. This is very much an interim CPP necessitated by the time which will have elapsed between the last review by Management in 1974 and the full CPP mentioned above. This CPP reports on developments since the previous one and recommends a small increase in Senegal's Third Window allocation. The short economic sections in this CPP focus exclusively on the near-term financial situation; the projections attached are therefore provisional and the long range lending program indicative. The former are based on a reasonable extrapolation of the past and on the Bank's commodity price forecasts; the latter reflects what we consider to be an appropriate share of Bank Group resources to help meet our projections of Senegal's foreign capital needs.

3. The project content of the proposed lending program reflects our conviction, reinforced by a review we have just completed of Senegal's guidelines for Plan preparation and to be verified during the forthcoming basic mission, that Senegal's development strategy giving priority to rural development and diversification of agricultural production will not change during the preparation of the 1977-81 Plan. Thus the projects shown, with roughly 40 percent of them agricultural, are an indication of our intent at this stage to continue our support of Government policies with the numbers and rhythm of projects, and their sectoral distribution, roughly parallel to the pattern established over the FY73-77 period. We attach some of the most important sector briefs, which spell out our present thinking about sectoral strategy and issues.

4. We do anticipate, however, that during our forthcoming discussions with Government we will be presented with arguments from some quarters that Senegal's best hope for development lies in major structural change of the economy, possibly industrial in nature. These will not be new arguments; many Government officials are impatient with the gradual evolution implicit in the strategy based on agriculture and with the periodic setbacks caused by the vagaries of weather and international market prices for groundnuts. We know the Government is actively considering several very large industrial projects, one of which, the Dakarmarine Tanker Repair project, was discussed at length in the last CPP and has continued to receive considerable attention from us, at Government's insistence. We have provided conservative counsel to Government regarding the kinds of market and financial guarantees they would require to justify proceeding with this project; this counsel has been heeded. We are



now in the process of making a preliminary evaluation of a second major industrial venture, the Senegalese-Iranian phosphate mining and oil refinery project which has been formally presented to the Bank for consideration by the planning ministers of Iran and Senegal. Senegal's going ahead with one or more of these industrial ventures would not be inconsistent with their basic rural-oriented development strategy provided the project is economically viable, does not take investment resources away from other high priority projects (ideally, it should attract 100 percent of its required investment from abroad), and assures financial returns adequate to service its debt. Our involvement in such ventures would be subject to the above conditions, would in all likelihood be modest in terms of capital, and might be limited to the provision of technical assistance for the project management and for training. For purposes of programming, we have included a few of the most interesting projects of this nature in the "reserve" category, indicating thereby that they do not have any implicit priority claim on Bank Group resources, that we are disposed to help Government examine them if asked, and that we would only propose them for admission to the lending program if we were satisfied that the above conditions had been met.

5. It is in agriculture, specifically in developing the irrigation potential of the Senegal River Basin through the Senegal River Basin Development Organization (OMVS--Senegal, Mali and Mauritania are the member states), where we feel structural change is not only desirable but also very probable given recent positive changes in the structure and management of OMVS and the substantial interest in the program expressed by various foreign donors. The Bank is likely to be asked to provide technical assistance to OMVS in addition to the capital contribution it could make to the program. This CPP argues that the Bank should respond positively to OMVS's request for technical assistance while at the same time gearing up at Headquarters to effectively supervise this assistance and prepare for further involvement in this important program.

6. Although in 1974 the full effect of the hike in food and oil prices on Senegal's balance of payments was temporarily compensated by exceptionally high prices for its main exports, Senegal is now facing the same problems as most of the other non-oil exporting third world countries. Our July 1974 CPP focussed on the then-precarious public finance and balance of payments situations in Senegal and argued for a program loan to ease Government through its immediate financial difficulties and prevent an hiatus in its essential investment programs. ~~Our July 1974~~ economic mission concluded that, thanks to a fortuitous combination of good weather and very high international market prices for groundnuts and phosphates (Senegal's principal exports) plus elimination of most of the excessive consumer subsidies on food, the program loan was not needed at that time. However, world market prices for Senegal's exports have since taken a very unfavorable turn and the Government, which pushed the economy during the last two years to the limits of available resources, is again in financial difficulty. It is now apparent that Senegal urgently needs program aid.

7. In comparison with the July 1974 CPP, the lending program proposed for FY75-77 (the primary focus of this CPP) calls for an allocation of nearly \$11 million of TW funds; this would not be additional to the approved program <sup>1/</sup> but would be a substitute for Bank financing for two of the projects in the program; and this represents the only change to the approved program proposed for this period. This TW allocation would permit us to soften slightly the approved Bank/IDA blend over the period while proceeding with the projects that are ready.

8. Over the period FY75-79, again in comparison with the program approved in July 1974, <sup>1/</sup> we propose a \$33 million increase in the lending program; \$13 million of this is IDA for an expanded irrigation project in the Senegal River Basin (the engineering of which we financed during FY75) in line with recent developments in the OMVS program, and \$20 million is IBRD for two additional projects in FY79. A roughly 57/43 Bank/IDA blend is maintained through FY79; the FY77-81 program shows a continuation of this blend as Senegal's vulnerability to the vagaries of weather and groundnut prices will be diminishing only very slowly throughout this period. Among the projects in the proposed FY77-81 program, five of them totalling \$78 million will generate benefits which Senegal will share with its neighbors. The \$45 million of IBRD projects in this group are port and railway operations the benefits of which would be shared with Mali, and to a lesser extent Mauritania and The Gambia; the \$33 million of IDA projects are irrigation schemes which will benefit all of the OMVS member states.

#### B. COUNTRY OBJECTIVES AND PERFORMANCE

9. Senegal enjoys an exceptionally stable political climate. The recent decision by President Senghor to liberalize political activity in what had been a one-party state is not expected to dramatically alter this climate; insofar as we can determine the orientation of the leaders of two emerging "opposition" parties, their appeal to the rural segment of the population will almost certainly induce the Government to continue to give top priority to rural development.

10. Substantial differences in income between urban and rural areas have yet to create serious political tensions. The rural population has an annual per capita income averaging only \$150; but no identifiable large groups are in absolute poverty, and the few large landowners who exist in Senegal are accepted as religious leaders who also offer some economic security to their followers. In the towns poverty prevails among new migrants, but this is usually mitigated by their continuing ties with the rural communities they came from or by their obtaining support from relatives already established in the towns. The politically important modern labor force is well organized in trade unions which secure reasonable wages from the heavily protected and

<sup>1/</sup> The "approved" program referred to excludes \$30 million of IBRD which was to have been committed for the enclave Tanker Repair project.



mostly French-owned industries. Civil servants have been able to maintain a privileged economic position although recent wage increases have been heavily skewed in favor of the lower salary ranges; they are generally competent, are recruited from all ethnic groups in the country, and are usually promoted on merit.

11. The country's ruling political party has opted for a type of mild socialism that seeks indirect state control over groundnut farming and mining, but continues to rely on the market mechanism in all other sectors. Foreign investments, sometimes with state participation, are encouraged in agro-industrial projects, other industry, and tourism; foreigners are generally well accepted but not allowed to dominate. In some well defined areas like public utilities, phosphate mining and groundnut processing, the Government has rather sharply cut back foreign ownership in line with its policy of Senegalianization of management to be completed by the early 1980s; so far the generous settlement arrangements agreed with the foreign shareholders have been helpful in maintaining a climate attractive to foreign capital. Moreover, the acquisition of these assets by the Government has increased its returns considerably.

12. Over the last five years the Government has progressively oriented its policies towards increasing the rate of economic development. Fixed investments rose from about 11 percent of GDP in the mid-sixties to 17 percent in the early seventies, but average annual growth in production remained below 2 percent through 1973 owing in great part to the effects of the Sahel droughts in the latter part of the period. Increased public investment and growing exports of manufactured goods nevertheless allowed the modern sector to keep its economic momentum despite the droughts. The rural economy recovered with the excellent 1974 and 1975 crops, thus stimulating the entire private sector. The good crops also reflect the better prices for the farmer, and the long standing Government efforts to modernize agriculture.

13. The international price increases at the end of 1973 for Senegal's major imports such as crude oil, cereals, sugar and investment goods were more than compensated in 1974 by exceptionally high export prices for groundnuts and a quintupling of phosphate rock export prices. The latter created enormous windfall profits for the mostly privately owned mining companies. To increase its share in those profits, which otherwise would have been transferred abroad, the Government purchased a majority share in the mines and raised taxation so that all profits above 100 percent of the nominal value of the shares would accrue to the Government.

14. For some time the Government had been considering a revision in its price policies to increase incentives and improve rural incomes, while at the same time removing subsidies on imported food, which protected the urban consumer. In late 1974, encouraged by high world market prices for groundnuts and phosphates, the Government increased substantially the farmer's share in the national income by raising producer prices while simultaneously bringing consumer prices for basic food more in line with import costs. At that time the Government had reason to believe that this improvement in income distribution could be achieved without sacrificing public savings. Unfortunately, in 1975 world market prices sagged, almost

eliminating the planned spread between farmgate prices and world market prices. The same happened in 1976: a few months after the Government announced that it would maintain the high groundnut producer prices it became apparent that the world market price would fall further, this time by about 20 percent. At the same time, phosphate rock prices fell from \$68 to \$35/mt. The unexpected fall in the prices of Senegal's main exports left a serious financial gap in the Government's budget and balance of payments.

#### Public Finance

15. As a consequence of the deficits in the agricultural stabilization fund described above and the fact that the tax revenue from phosphate excess profits will be less than half of the amount expected at the time the producer price decisions were taken, gross public savings will fall below debt service payments, forcing the Government to roll over part of the foreign debt and to borrow in order to finance part of its share in the financing of the public investment program. The recent devaluation of the French franc, which is automatically followed by Senegal, will help offset the effect of declining world prices on stabilization fund savings. The situation would be far more serious but for the fact that the Government still has borrowing rights with the Central Bank of the West African Monetary Union up to about \$75 million, a facility which the Government so far has hardly used.



PUBLIC FINANCE  
(in millions of US\$)

|  | FY73       | FY74       | Estimate<br>FY75 | Forecast<br>FY76 |
|--|------------|------------|------------------|------------------|
| Current Revenues                         | 215        | 283        | 337              | 408              |
| (of which from groundnuts)               | (20)       | (65)       | (35)             | (-)              |
| (of which from phosphates)               | (-)        | (-)        | (32)             | (32)             |
| Current Expenditures <u>/1</u> <u>/2</u> | 200        | 256        | 308              | 389              |
| (of which, consumer subsidies)           | (15)       | (49)       | (40)             | (11)             |
| <u>Public Savings</u> <u>/1</u>          | <u>15</u>  | <u>27</u>  | <u>29</u>        | <u>19</u>        |
| Gross Foreign Finance                    | 81         | 106        | 105              | 122              |
| Debt Service                             | -10        | -22        | -22              | -31              |
| <u>Net Public Resources</u>              | <u>86</u>  | <u>111</u> | <u>112</u>       | <u>110</u>       |
| Public Investments                       | 71         | 97         | 93               | 113              |
| Acquisitions and Participations          | 33         | 8          | 10               | 10               |
| <u>Financial Surplus (+)</u> <u>3/</u>   | <u>-18</u> | <u>+6</u>  | <u>+9</u>        | <u>-13</u>       |

/1 Excluding interest payments

/2 Including net expenditures of lower public authorities n.e.i.

/3 To be financed by Central Bank borrowing.

Balance of Payments

16. For the last four years the balance of payments has been under heavy pressure, and net foreign reserves fell to negative levels. The deterioration started in 1973 when the Government increased its capital expenditures despite the fourth crop failure within five years. In the next year the current account improved thanks to exceptionally favorable terms of trade, but the overall deficit remained due to outflows of capital related to the acquisition of foreign-owned enterprises. Roughly \$50 million in private funds were repatriated on this account over the last three years (and this excludes the recent majority participation in the groundnut mills). Despite the excellent groundnut crops in 1974/75 and 1975/76 the balance of payments problems persist. The rise in producer prices had a favorable impact on income distribution and groundnut production, but purchase of the large crops at these higher prices also expanded purchasing power in both the rural and urban economies, raising import demand at a time when export prices were declining and foreign exchange earnings were levelling off.

BALANCE OF PAYMENTS  
(in millions of US\$)

|                                 | 1972       | 1973        | Estimate<br>1974 | Estimate<br>1975 |
|---------------------------------|------------|-------------|------------------|------------------|
| Exports of Goods                | 190        | 177         | 360              | 403              |
| Imports of Goods                | -280       | -360        | -505             | -582             |
| Net Services and Curr. Trans.   | 60         | 67          | 72               | 43               |
| <u>Current Account</u>          | <u>-30</u> | <u>-116</u> | <u>-73</u>       | <u>-136</u>      |
| Net Private Capital Inflows     | 3          | -28         | -1               | -6               |
| Net Public Capital Inflows      | 29         | 104         | 67               | 112              |
| Capital Grants                  | (15)       | (38)        | (22)             | (36)             |
| Gross Loans                     | (22)       | (88)        | (64)             | (96)             |
| less: Amortization              | (-8)       | (-22)       | (-19)            | (-20)            |
| <u>Decrease in Reserves (-)</u> | <u>2</u>   | <u>-40</u>  | <u>-7</u>        | <u>-30</u>       |



Economic Adjustments

17. The continued pressure on the balance of payments has eroded the country's foreign reserves and forced the Government to review its short-term economic management. In June 1975, total net reserves reached a seasonal low of minus \$108 million; reserves could be that low because of arrangements in the West African Monetary Union where Senegal's negative balance amounted to \$45 million; the IMF financed \$19 million under the oil facility and private banks were actively encouraged to borrow from their parent companies abroad which led to a \$17 million fall in their net foreign assets. In view of the alarming reserves situation the Government introduced credit controls-- in conformity with Monetary Union rules -- which succeeded in stabilizing credit expansion and domestic inflation. At the same time the government agreed to an increase of the the Central Bank's discount rate from 5.5 to 8 percent, and an official money market rate slightly above the rate in France to reverse international short-term credit flows. These measures were overdue but will be effective in moving the economy towards equilibrium. In Fall 1975, a \$12 million drawing on the second oil facility was one of the factors which helped to improve the gross official reserves from \$6 million at the beginning of 1975 to \$39 million at the end of November including a positive balance in the monetary union. However, the declining trend in the net reserve position has not yet been reversed, with commercial banks financing the continuing balance of payments deficits.

END YEAR RESERVES  
(in millions of US\$)

|   | 1972     | 1973       | 1974       | Nov. 1975  |
|---|----------|------------|------------|------------|
| Net official reserves                   | 37       | 1          | -5         | +7         |
| of which: Position in Monetary Union    | (27)     | (-)        | (-11)      | (+34)      |
| Position in IMF                         | ( 4)     | (5)        | ( - )      | (-30)      |
| Net external assets of commercial banks | -30      | -31        | -39        | -73        |
| Net Total reserves                      | <u>7</u> | <u>-30</u> | <u>-44</u> | <u>-66</u> |

18. With the quickly falling terms of trade, Senegal now has a structural balance of payments problem which will need a number of years to redress. Senegal has room to maneuver: IMF facilities are not yet exhausted, Arab lines of credit are available and gross reserves are positive. There may be a need for a Bank program loan to help Senegal in the medium term through this difficult period; this need is now being assessed, but in view of the substantial balance of payments support available from other sources, no such loan is included in the proposed lending program.

19. Senegal's scope for policy adjustment is severely constrained, but vigorous application of certain short-term measures already accepted in principle by the Government would improve the outlook for the coming year, while the Government has agreed to cooperate with the Bank in evaluating important longer term policies affecting development prospects and financial stability. With respect to short-term policies, credit limitations agreed to by the Central Bank in 1975 in line with IMF recommendations are likely to be needed again in the coming year to prevent aggravating existing demand pressures on imports and the balance of payments. The interest rate differential now in effect between Senegal and France can and should be maintained, with slightly higher rates prevailing in Senegal, to encourage private capital to remain in the country. After having cut the effective subsidy formerly given to urban consumers of imported goods, the Government should complete the process by removing the remaining subsidies altogether, thereby making more resources available for development programs. These measures would help prevent a further deterioration in the country's public finance and balance of payments position. If additional steps prove necessary, there is scope for some reduction in groundnut producer prices. However, this is a politically difficult measure and the nominal prices now in effect have already been eroded by inflation. Moreover, international prices in current terms are projected to begin an upward trend following the 20 percent decline in 1976, and it thus may be possible to maintain producer prices in nominal terms without drawing more on stabilization fund resources. With the cooperation of the Government our economic work program during the year will address two areas of development policy which are likely to be important for the maintenance of longer term financial stability. First, on official request, the basic economic mission scheduled for the Fall will evaluate the Government's development plan, including specific projects, to help establish economic priorities including prospective balance of payments effects. Second, a special mission, to take place this month, will focus on measures to increase the capacity of public enterprises to finance their own investments.

### C. EXTERNAL ASSISTANCE

20. Senegal's development is still largely dependent on foreign assistance. Although qualified Senegalese hold key positions, a large part of the technical work continues to be done by expatriates. Capital aid finances about three-quarters of the public investment program. In the early seventies about \$20 million a year was granted mainly by France and the FED, and about an equal amount was loaned on generally very concessionary terms. In 1973/74 grants averaged \$30 million whereas loan disbursements reached \$70 million (including \$40 million on hard commercial terms). At the end of 1974 the total outstanding debt was \$239 million. Undisbursed debt amounted to \$160 million of which 30 percent was committed by the Bank Group.



21. In the coming five years, Senegal will need a mix of project loans, non-project finance, and further balance of payments assistance. Until 1980, about \$35 million can be expected in grants from the FED, France and USA. Project loans can reasonably be expected to attain an average of \$100 million a year, or about 75 percent of a projected public investment program which is assumed to increase by 7 percent a year in real terms; \$30 million would come from the Bank Group, \$30 million from Middle East OPEC countries, \$40 million as bilateral aid mainly from France, Germany and Canada. To attain these disbursement levels commitments should be substantially higher (see Attachment 4a). The average interest rates on project loans is assumed at 5 percent with five years of grace and 20 years of maturity. Non-project borrowing will probably largely take place on Eurodollar terms and has to be limited to around \$25 million a year to keep the debt service ratio below 10 percent of export revenues, which we consider a safe level for a country with a stage of development like Senegal and economic risks related to climate and export markets. However, these flows may not suffice to cover the full gap in the balance of payments in the course of this decade. With the existing balance of payments facilities of the IMF, EEC, and the monetary union to which Senegal belongs, some further deficits would not pose a problem. The Fund's first credit tranche plus full utilisation of the compensatory facility amount to about \$35 million, whereas the extended facility could provide a maximum of almost \$50 million.

#### Creditworthiness

22. Our assessment of Senegal's creditworthiness has not changed since the last CPP. The current liquidity problems are due to the vagaries of world market prices and can be overcome by prudent economic management for a number of years. Besides, Senegal is protected against any immediate foreign exchange crisis by its membership in the monetary union. In 1974 and 1975, the combination of a booming market for Senegal's main exports, the good crops and the sudden availability of OPEC money led to an atmosphere of optimism among policy makers. After years of tight control, current budget expenditures were allowed to grow faster, farmer prices were set on a relatively high level, and important amounts were spent on state participation in existing industries. However, export prices came down much sooner than expected and policies have now to be adapted accordingly. On many occasions the Government took the necessary steps to move away from an apparent disequilibrium: in November 1974 the Government abolished the bulk of the consumer subsidies, and in July 1975 it introduced credit controls to curtail excess demand. There is no reason to believe that the Government would fail to react to the present drop in export prices; and the Senegalese cannot be condemned for believing, albeit mistakenly, that the favorable terms of trade experienced in 1974 and early 1975 heralded a long-awaited, and permanent, change in the world economic order.

23. Potential risks to Senegal's creditworthiness lie much more in the choice of investments and in the terms of borrowing than in the present liquidity crisis. The Government has up to now been very prudent in its choice of investments; we have carefully investigated with them the risks involved in the Dakarmarine project, and we will do the same for the Pahlavi project co-sponsored by Iran. At the moment Senegal's administrative absorptive capacity is quickly increasing, but possibilities for domestic resource mobilization are still limited. Also, considering the long gestation periods of most of the projects now being financed in Senegal, the country still needs concessionary finance to avoid serious debt service problems in the future; Senegal is thus a typical case for Bank/IDA blend lending with only a very gradual hardening of terms over the years. Critical for long term creditworthiness could be non self-liquidating hard loans; although Senegal has over the last three years borrowed \$85 million on the Eurodollar market, it is still far from a situation which poses a threat to creditworthiness. Its present debt service ratio is only 6 percent and is not expected to rise above 10 percent as long as Eurodollar borrowing doesn't exceed the present rates.

D. PROGRESS TOWARDS PRIOR YEAR GOALS

24. The July 1974 CPP, while aimed primarily at Senegal's short term liquidity problems, also re-stated Bank Group support for the Government's long-range development strategy as described in the 1973-77 Plan. The keystone of that strategy was rural development to increase rural incomes through higher productivity, to diversify agricultural production and reduce dependence on imported foods, and to stimulate migration out of the overpopulated groundnut basin. The Bank Group is the leading supporter of this rural development strategy; we will, by the end of FY76, have at least one ongoing project in all but one of the rural administrative regions of Senegal and will have committed over \$50 million for eleven operations in the agricultural sector (compared with over \$90 million for 14 operations in all other sectors). One of these agricultural operations was an emergency credit for drought relief, one was an engineering credit for a large irrigation scheme to come, and two were pilot operations to test migration policies. The remainder are designed to promote diversification of agricultural production into irrigated rice and other food grains, to increase livestock production through range management and improved husbandry, and to stimulate increased productivity by the introduction of intensified cultivation techniques. The Bank Group has been at the same time a major supporter of Senegal's transport sector, since the development and maintenance of an effective transport network is a critical adjunct to the basic rural development strategy. By the end of FY76, the Bank Group will have financed eight operations for some \$57 million in the transport sector.



25. The Senegalese have long sought relief from their heavy dependence on groundnuts for export earnings. Their 73-77 Plan thus calls for development of export industries, fisheries, and tourism. The Bank Group has supported this objective through the establishment of a new DFC, SOFISEDIT, oriented towards the industrial sector. We have, in addition, just appraised a tourism development project and are actively preparing a fisheries project.

26. In education (two operations for \$17 million) and urban sites and services (one operation for \$8 million) the Bank Group deliberately put itself out ahead of Government planners and policy makers in hopes of achieving some sector reform. This strategy has been quite successful in education, where Government has accepted our philosophy and has embarked on some major restructuring of its hitherto elitist education system; Government remains well behind our suggestions in the urban sector, however, as its housing and services policies remain heavily biased in favor of middle and upper income groups while paying insufficient attention to the constant influx into the capital and other urban centers of poor migrants from the rural areas.

27. The Bank Group was asked to coordinate the engineering and feasibility studies for the Dakarmarine Tanker Repair project; we also financed part of the studies. For a number of reasons, among them the reopening of the Suez Canal and an apparent glut of ship repair facilities for some time to come, we strongly cautioned Government against going into this very risky venture unless there was some way they could secure a guaranteed market. Government has been unable to obtain either the market guarantees or the finance needed to go ahead and appears to be quietly shelving the project.

28. We did not make the \$15 million program loan proposed in the July 1974 CPP because our Fall 1974 mission found that the combination of windfall phosphate profits, good groundnut harvest and high market prices, coupled with Government initiative to reduce consumer subsidies and thereby improve the public savings situation, obviated the need for it; however, the liquidity crisis which had provoked the consideration of a program loan did not abate as we had expected, and program aid is again needed.

29. We have been working closely with Government over the past two years to increase the rate of disbursement under our projects; despite the fact that the execution of a few of our projects has been retarded by delays in the provision of Government counterpart funds, the overall disbursement record for our projects, as a percentage of appraisal estimates, has been steadily improving:

BANK/IDA ACTUAL DISBURSEMENTS  
AS % OF APPRAISAL ESTIMATES

| As of:       | 6/74       | 12/74      | 6/75       | 12/75      |
|--------------|------------|------------|------------|------------|
| Agriculture  | 44%        | 57%        | 71%        | 86%        |
| Public Works | 26%        | 26%        | 47%        | 57%        |
| Other        | 13%        | 17%        | 19%        | 50%        |
| TOTAL        | <u>31%</u> | <u>37%</u> | <u>53%</u> | <u>66%</u> |

E. BANK GROUP STRATEGY

30. Our strategy is unchanged from that of the previous two CPPs in that we continue to support Government's basic rural development strategy with, however, increased emphasis on the restructuring of agriculture through OMVS, a program wherein benefits from investments in Senegal will accrue also, in part, to neighboring Mali and Mauritania.

31. With regard to the large industrial projects which Government is considering, we will continue to help analyze them, if asked, as we have done in the case of Dakarmarine and are doing in the case of the Pahlavi project. We would not recommend that Senegal go ahead with such projects if we felt that doing so would take essential resources away from the rural development program we support; rather, we would expect such projects to attract most, if not all, of their investment resources from abroad and to provide sufficient assurance of foreign exchange earnings that their debt service would be auto-financed. Our own participation in such operations, were we to recommend going ahead, would be modest; we would hope that our favorable posture towards such projects would in itself stimulate the involvement of others and that our role could be perhaps limited to the provision of funds for management technical assistance and training of technical staff.

32. The growth of Senegal's absorptive capacity has been partly due to technical assistance, training schemes and institution building by foreign donors. While continuing our emphasis on these aspects in our operations, it is becoming apparent that a more fundamental change is required in the institutional set up of the agricultural sector. We are trying to convince the Government that the highly inefficient state marketing monopoly for groundnut and cereal trade (ONCAD) should return a large number of its activities to regional development agencies or the private sector.



33. Although the main emphasis of our program is directed towards rural development, we have kept our involvement in the maintenance and gradual extension of Senegal's already sizeable basic infrastructure. With this strategy we prevent serious short-falls in foreign capital and technical assistance for this sector which would result from the general tendency to move foreign aid programs to other priority sectors. We also ensure the provision of essential transport services to neighboring Mali, Mauritania, and the Gambia.

F. BANK GROUP PROGRAM

34. Over the period FY75-79, the proposed lending program calls for about \$11 million of TW, plus an additional \$20 million of IBRD and \$13 million of IDA. The effect of these proposed changes would be to increase the nominal lending per capita per annum for FY75-79 from the \$6.88 currently approved to \$8.19; this level is reasonable given Senegal's development performance and absorptive capacity. The grant element per capita per annum of the proposed program, at \$4.19, is high for a country with Senegal's GNP per capita (\$320 in 1975); it is not high, however, when Senegal's absorptive capacity and continuing difficulties with rapidly deteriorating terms of trade are taken into account.

35. The proposed FY77-81 program is based on the following assumptions:

- (1) Senegal is assumed to remain a blend country and to retain its proportionate share of IDA resources through the expanded 5IDA into the 6IDA Replenishment period (FY81); in view of Senegal's absorptive capacity and our expectation that its development strategy, with the help of good short-term economic management, will lead to less vulnerability to the vagaries of weather and groundnut prices, the overall volume of proposed nominal lending averages at \$10.80 per capita per annum;
- (2) A substantial proportion of the increased IDA is earmarked for OMVS projects where the benefits can also be attributed, in part, to Mali and Mauritania; indeed, as OMVS develops, these amounts could be increased;
- (3) The remainder of the recommended IDA is earmarked for other projects in the agriculture, urban, and education sectors where we have traditionally financed projects on highly concessionary terms;
- (4) The projects in the program are consistent with the Regional Lending Program through FY81 and are within the capacity of the Projects staff to process; and

- (5) The reserve projects shown, if they materialize, will not result in increases to the proposed lending program but will be added at the expense of something else.

36. Senegal's capacity to support its own development strategy, as that strategy is reflected in the 1977-81 Plan now in preparation, will highly depend on actions taken now to redress the structural fiscal and balance of payments problems discussed in earlier paragraphs. Our willingness to support this strategy over the long run will also depend on these actions, and we may be able to influence the situation through the economic work program we now have underway and, possibly, through program assistance. We do not propose program assistance at this time as Senegal still has considerable assistance available to it from other sources. Rather, we propose to continue executing our program of project assistance through FY78 as these projects are all either already appraised or in a very advanced stage of preparation. Beyond FY78 we propose for the outyears an indicative program which, as it forecasts some expansion of Bank Group assistance, obviously presupposes the resolution of Senegal's liquidity problems. This supposition, and the appropriate level of Bank Group assistance to Senegal's next Plan, will be the focus of the next CPP to be prepared following our Basic Mission this Fall. In the following paragraphs we summarize the FY77-81 program by sector. We attach a more detailed analysis of issues for agriculture, the Senegal river irrigation and the industrial sectors.

#### Agriculture

37. Senegalese agriculture remains largely the captive of its past based on the profitable combination of exporting groundnuts and importing cereals. The theory was that large quantities of groundnuts could be produced through extensive farming even in areas of fairly poor soils and irregular rainfall and transported over relatively short distances for export. The prices of exported groundnut oil and cake would be high enough so that Senegal could import low cost food from other countries and concentrate on groundnuts. Unfortunately, the prices of groundnuts and groundnut products have proven to be particularly volatile; furthermore, the processing of groundnuts into oil and cakes, as in other Sahelian countries, does not appear to be a very profitable use of domestic resources as means to earn or save foreign exchange. Import substitution for high cost food has now become essential, and Senegal has realized the need to restructure its agriculture. There has been considerable progress towards crop diversification, adoption of intensive farming techniques, and development of more remote areas with higher rainfall and better soils. However, there is a limit to increasing agricultural production through rainfed agriculture. Over the long term, Senegal must improve its water resource utilization, in particular, through development of the Senegal River Basin.<sup>1/</sup>

1/ Development of other river basins, especially Casamance, are less well advanced.



### Senegal River Irrigation

38. Regulation of the Senegal River in order to permit irrigated development of 430,000 ha (230,000 ha in Senegal), power generation, and improved transportation is an objective sought jointly by Senegal, Mauritania and Mali through the Organization for the Development of the Senegal River Basin (OMVS). There is widespread support for OMVS among the donors and final engineering and design for a salt water intrusion dam (Diama) at the mouth of the river and a large multipurpose dam (Manantali) upstream are being financed by France and Germany.

39. The Bank Group has expressed its willingness to consider financing irrigation development at Diama and providing technical assistance to OMVS. OMVS has until recently been a small, weakly staffed agency adequate to supervise general river basin studies but not to be executing agency for a large development program. However, In December 1975 OMVS was reorganized into a High Commission with increased responsibility to implement an action program. The High Commissioner, Mr. Mamadou Aw, has indicated that he would be interested in the Bank's playing an important role in helping OMVS to assess its staff requirements and in providing some of its key technical assistance either directly or as executing agency for UNDP. While considerable bilateral technical assistance is available, Mr. Aw appears to prefer a relatively unbiased institution like the Bank.

40. We believe that OMVS will be a vital part of agricultural development efforts, not only for Senegal, but also for Mauritania and Mali. In order to assist OMVS in shaping its river basin program and to establish a pipeline of projects which could be financed by the Bank in Senegal and in the other two member states, we are considering establishing a special OMVS unit in the Western Africa Region.

41. Bank assistance to OMVS could come in two forms: (i) help in defining the OMVS personnel needs and providing technical assistance, either directly or as executing agency for others (UNDP); and (ii) specific project financing. Both would require a special multidisciplinary unit within the region staffed with a variety of experts able to spend from 25 to 50 percent of their time on OMVS and with special knowledge of the three countries involved. This unit, which could need as much as two man-years of effective staff time in FY77, would supervise technical assistance in those sectors where OMVS seeks specific long term help from the Bank (land development, power, transport). The unit would, in essence, seek to establish a permanent relationship with OMVS through which the Bank could advise the organization on areas of policy formulation and program implementation. The unit would also be responsible for identifying, preparing, appraising and supervising specific projects related to OMVS and financed by the Bank in the three countries. We have included two such projects for irrigation development

in the program, one in FY78 and the second in FY80; we are close to appraisal of the FY78 project which would include an important training component in order to prepare SAED, the regional agricultural development organization for Senegalese OMVS projects, to execute a rapidly growing program of irrigation development and to train farmers in modern irrigated farming.

#### Education

42. A number of constraints continue to hamper educational development in Senegal, among the more important: high recurrent costs, programs ill-adapted to national development needs and the lack of technical expertise for planning and training in education. As a result of high recurrent costs, access to the first level of education remains limited and unevenly distributed despite significant gains in the last decade. At subsequent levels of the formal system, programs have been improved in such areas as mathematics and language teaching but instruction remains insufficiently oriented to science, technology and the needs of the country. The Second Education Project (FY75) focusses on these problems by providing assistance in planning, a study of ways to make a basic education more accessible, and the testing out of new programs in lower secondary schools and non-formal post-primary education for rural areas. It also addresses the training and upgrading of adults in industry and tourism. A Third Education Project (FY79) is expected to be identified subsequent to sector work to be carried out jointly by UNESCO and the Bank in Fall 1976.

#### Population

43. According to Bank's estimates, the population of Senegal was 5 million in mid-1975 and the average annual rate of growth was 2.7%. With a growth rate of this level, the present population would double in about 26 years. Both the birth rate (48 per 1000 population) and the death rate (24 per 1000 population) are extremely high, with 43% of the population under 15 years of age. Even though the Government sees the country's population growth rate as acceptable, some leaders are now showing interest in family planning. The Government is now giving informal encouragement to the pioneering founders of the private family planning association. The USAID has provided some support for maternal and child health and family planning; the UNFPA is supporting two demographic projects--the 1975 population census and an investigation of fertility trends.

44. We are aware of the sensitivities surrounding the population issue in Western Africa's Francophone nations. However, we believe that the gravity of the problem deserves serious consideration by the Government. A Family Planning program (without any "population control" objectives) with the goal of improving maternal and child health, decreasing infant mortality and improving family welfare through education and services for family planning, would be of considerable benefit to the country in assisting it to achieve a desirable transition from high to moderate birth and death patterns. We will take this matter up with Government during the Basic Mission this Fall and will reflect the results of these discussions in the next CPP.



### Tourism

45. With its mild winters and attractive sandy beaches, plus its excellent international airport and strategic location on the Europe-Africa-South America air routes, Senegal has begun to realize its substantial potential for tourism development. The number of tourists visiting Senegal increased from 25,000 in 1968 to 125,000 in 1974, largely as a result of new hotels being opened up. Tourism is one of the few modern sectors in which a country relatively poor in natural resources like Senegal can hope to expand in the future. Most tourism development has occurred in the Dakar area, but recently increased attention has been given to "beach" tourism in other areas. The Tourism I Project (FY77) will develop infrastructure and a pilot hotel for the 2,250 bed first phase of a tourism station on the Petite Cote south of Dakar. Restoration of Goree Island in the Port of Dakar as an historical and tourist attraction and technical assistance to Government to plan and coordinate its investments in the tourism sector will also be included in the Project. Tourism II, expansion of the Petite Cote station to 4-5,000 beds is planned for FY80.

### Transportation

46. Senegal has one of the most extensive transportation systems in West Africa including a 13,300 km road network (2,600 paved), a 1,032 km railroad and a major port and airport at Dakar. Transportation, which has consistently ranked high among Government's investment priorities, aims at supporting general economic growth, especially in agriculture and the growing industrial, fishing and tourism sectors. Government is also aware of the need to rehabilitate and maintain its existing investment in the transportation sector. In the future, the transportation system would be influenced significantly by implementation of any one of a number of large projects now under construction: (i) the Pahlavi complex of a refinery, phosphate mine, mineral port near Cayar, north of Dakar; (ii) an iron ore mine and pelletizing plant at Faleme in Eastern Senegal to evacuate 5-6 million tons annually based on studies being done by Germany and France; (iii) OMVS and possible river navigation on the Senegal River; and (iv) a possible bridge or dam spanning the Gambia River.

47. The objectives of our lending in the sector have been threefold: (i) to help set up a sector planning organization and develop sound transport policies; (ii) to maintain and improve the quality of the transport network, particularly in the rural areas; and (iii) to stimulate operational efficiency and financial autonomy in the railway, port and aviation sector. To this end, the Third Highway Project (FY76) included financing of technical assistance for the establishment of a transport planning unit, execution of an agreed work program including review and evaluation of all new transport investment proposals and provided for continuing the maintenance and rehabilitation of the main road network begun under the Second Highway Project (FY73). The Feeder Road Project (FY76) is designed to initiate a shift in emphasis from the traditional groundnut-producing areas to other less

developed areas (Casamance and East Senegal) with unused production potential and large populations, to establish a feeder road development plan and separate unit with adequate resources to implement it. Substantial improvements in railway financial autonomy have been achieved under the Second Project (FY72), and the Third Railway Project (FY78), which is in preparation, has a major railway technical assistance and training input with a staged program for improving productivity. The Port of Dakar has proved to be one of the best run public enterprises in Senegal, and the Fishing Wharf Project (FY77) followed by a possible third port project in FY81 to provide facilities for handling container-ships, will be used to maintain and strengthen the relative autonomy of the Port and improve its effectiveness for future operational needs. We see no need, at this point, for additional investment for Dakar Airport, where a project has just been completed to increase the length of runway and improve other facilities. In the course of our normal project preparation and supervision, efforts are being made to pave the way for highway program lending by 1980.

#### Public Utilities

48. Telecommunications. In the early 1970s the Postal and Telecommunications Authority (OPTS) began a nationwide investment program to rehabilitate, modernize and expand the principal local and long distance facilities. The Bank's Telecommunications Project (FY73) assisted, in the second stage of this program, the badly needed rehabilitation of the Dakar telephone system and expansion of facilities in the northern provinces. Project execution was delayed due to poor planning and administrative inefficiencies and the Caisse Centrale de Cooperation Economique (CCCE) joined the project to finance the resulting higher costs. Government, the Bank and CCCE agreed on an action program to get the project moving. Additional telecommunications investment is certainly required but could only be considered if execution of the first project is proceeding satisfactorily and if the telecommunications investment plan is reasonable in the context of Senegal's overall investment resources and priorities. A reserve project is therefore included for FY78.

49. Water Supply and Sewerage. Responsibility for sector planning and investment is presently divided between the Ministries of Rural Development and of Public Works. Planning is weak and investments are made without detailed analysis. SONEES, the state owned company which operates some 37 urban water supply systems and sewerage networks in Dakar and St. Louis, has good top and middle level staff but is weak at lower levels. SONEES is in serious financial straits due to previously contracted debt obligations and Government's reluctance to raise tariffs to take account of inflation. We hope to have an important role in improving the institutional framework



for this sector since this would be a condition for accepting Government's request to organize donors to finance water and sewerage projects in secondary cities. 1/ A water supply project for secondary cities has been preappraised and is scheduled for FY78S providing we reach agreement with Government on improving SONEES. A sewerage project for secondary cities would come in FY79 and a second water supply project in FY81.

50. Power. SENELEC, the Government-owned power utility is one of the best administered agencies of its kind in West Africa. Demand over the past two years has decreased due to the very high tariffs SENELEC has had to charge to cover its heavy debt burden and increased fuel costs. Generating capacity in the main national interconnected system should exceed supply requirements for quite some time although some investments will be made by Canada in interconnecting secondary systems and expanding distribution. We do not foresee a Bank project at this time.

#### Urban Development

51. Since before independence when Dakar was the administrative center for the 70 million people in the French West African Federation, Senegal has been one of the most urbanized countries in Africa with 30% of the total population living in cities. The urban population is concentrated in the Dakar area where about one million people live, many more than the official records show. Dakar is growing at an estimated 8% annually due both to natural population growth and migration. A Site and Services Project (FY72) for low cost housing and basic physical and social infrastructure has had difficulty in being implemented due to delays in staffing of the project authority, administrative bottlenecks and poor consultants performance. Project implementation is improving but there is a clear need for assistance in urban planning, project preparation and administration in order for Government to develop and execute a well articulated urban policy. Government's focus on the urban poor, the development of productive enterprises to give employment in and near slum/squatter areas, the provision of community development assistance and additional site and services facilities should provide the elements for a second project which we have put in FY81. Since Government may need some help preparing this project and since some community services not provided through the FY72 project are sorely needed, an interim project has been included in the reserve list for FY78.

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1/ Water supply and sewerage in Dakar is being financed by the African Development Bank.

G. CONCLUSIONS AND RECOMMENDATIONS

52. The modest \$10.6 million TW financing recommended (in fact, \$6.6 million has already been committed for the FY76 Feeder Roads project) would permit us to maintain the momentum of our lending to Senegal with a decent blend in the face of the structural problems caused by Senegal's dependence on groundnut and phosphate export earnings and the adverse trend in their terms of trade.

53. Despite the current liquidity crisis, Senegal's long term credit-worthiness is not in question; however, it will take some time for current development strategy and good economic management to reverse the recent setbacks. Thus the medium and longer term programs recommended call for maintenance of a roughly 57/43 Bank/IDA blend of financing. At the same time, increases in the total amount of Bank Group financing are recommended as the essential dynamism and absorptive capacity are demonstrably present in the economy.

54. Recent developments in the OMVS program and our expectation that OMVS' High Commissioner will soon officially ask the Bank to provide him with technical assistance could require the establishment of a special unit in the Western Africa Region to supervise the technical assistance and prepare for the Bank's involvement in the overall program. The parameters of the program and the role we are to play in providing technical assistance we expect to be discussed at length, and hopefully decided upon, during a special meeting of interested donors and the OMVS countries in Dakar the week of June 14, 1976. If that meeting results in a call on the Bank for an expanded involvement, we will need roughly two man-years of additional in-house effort beyond what we have included in our FY77 "asking" budget. In this case, we will come back to Management with a request for an allocation from the Bank's FY77 contingency.





| LAND AREA (THOU KM <sup>2</sup> )                    | SENEGAL - SOCIAL INDICATORS DATA SHEET |                      |                         |                            |                      |                       |
|--|--|----------------------|-------------------------|----------------------------|----------------------|-----------------------|
|  | SENEGAL                                |                      |                         | REFERENCE COUNTRIES (1970) |                      |                       |
|  | 1960                                   | 1970                 | HIGHEST RECENT ESTIMATE | GHANA                      | IVORY COAST          | TUNISIA <sup>ex</sup> |
| TOTAL  | 196.2                                  |                      |                         |                            |                      |                       |
| AGRIC.   | ..                                     |                      |                         |                            |                      |                       |
| GNP PER CAPITA (US\$)                                | 240.0 <sup>ex</sup>                    | 250.0 <sup>ex</sup>  | 250.0 <sup>ex</sup>     | 250.0                      | 320.0                | 320.0                 |
| <b>POPULATION AND VITAL STATISTICS</b>               |  |                      |                         |                            |                      |                       |
| POPULATION (MID-YR, MILLION)                         | 3.4 <sup>ex</sup>                      | 4.4 <sup>ex</sup>    | 4.7 <sup>ex</sup>       | 8.6                        | 5.4                  | 5.1                   |
| POPULATION DENSITY PER SQUARE KM.                    | 17.0                                   | 22.0                 | 24.0                    | 36.0                       | 16.0                 | 31.0                  |
| PER SQ. KM. AGRICULTURAL LAND                        | ..                                     | ..                   | ..                      | ..                         | ..                   | ..                    |
| <b>VITAL STATISTICS</b>                              |  |                      |                         |                            |                      |                       |
| CRUDE BIRTH RATE PER THOUSAND                        | 43.2                                   | 32.3                 | ..                      | 47.0                       | 46.0                 | 38.0                  |
| CRUDE DEATH RATE PER THOUSAND                        | 25.6                                   | 18.3                 | ..                      | 18.0                       | 23.0                 | 14.0                  |
| INFANT MORTALITY RATE (/THOU)                        | 93.0                                   | 156.0                | ..                      | 156.0                      | ..                   | 125.0                 |
| LIFE EXPECTANCY AT BIRTH (YRS)                       | 37.0 <sup>/a</sup>                     | 41.0                 | 44.0                    | 46.0                       | 41.0                 | 52.0                  |
| GROSS REPRODUCTION RATE                              | ..                                     | 3.0                  | 3.0                     | 3.2                        | 3.1                  | 3.4                   |
| <b>POPULATION GROWTH RATE (%)</b>                    |  |                      |                         |                            |                      |                       |
| TOTAL  | 2.1                                    | 2.7                  | 2.7                     | 2.6                        | 3.4 <sup>/a</sup>    | 2.1                   |
| URBAN  | 3.5                                    | 4.0                  | ..                      | 5.0                        | 7.5 <sup>/a</sup>    | 3.1 <sup>/a</sup>     |
| URBAN POPULATION (% OF TOTAL)                        | 23.0                                   | 29.0                 | ..                      | 29.0                       | 28.0                 | 40.0 <sup>/a</sup>    |
| <b>AGE STRUCTURE (PERCENT)</b>                       |  |                      |                         |                            |                      |                       |
| 0 TO 14 YEARS  | 42.6                                   | 41.2                 | ..                      | 46.9                       | 42.4                 | 46.3 <sup>/b</sup>    |
| 15 TO 64 YEARS                                       | 53.6                                   | 54.9                 | ..                      | 49.5                       | 54.9                 | 50.2 <sup>/b</sup>    |
| 65 YEARS AND OVER                                    | 3.8                                    | 3.9                  | ..                      | 3.6                        | 2.7                  | 3.5 <sup>/b</sup>     |
| AGE DEPENDENCY RATIO                                 | 0.9                                    | 0.8                  | ..                      | 1.0                        | 0.8                  | 1.0 <sup>/b</sup>     |
| ECONOMIC DEPENDENCY RATIO                            | 1.2 <sup>/b</sup>                      | 1.2 <sup>/a</sup>    | ..                      | 1.4                        | 0.9 <sup>/b</sup>    | 1.8 <sup>/b,c</sup>   |
| <b>FAMILY PLANNING</b>                               |  |                      |                         |                            |                      |                       |
| ACCEPTORS (CUMULATIVE, THOU)                         | ..                                     | ..                   | ..                      | 10.9                       | ..                   | 112.2                 |
| USERS (% OF MARRIED WOMEN)                           | ..                                     | ..                   | ..                      | 2.0                        | ..                   | 12.0                  |
| <b>EMPLOYMENT</b>                                    |  |                      |                         |                            |                      |                       |
| TOTAL LABOR FORCE (THOUSAND)                         | 1300.0                                 | 1600.0               | ..                      | 3300.0                     | 2600.0               | 1300.0 <sup>/b</sup>  |
| LABOR FORCE IN AGRICULTURE (%)                       | ..                                     | 73.0                 | ..                      | 54.0                       | 78.0                 | 57.0 <sup>/b</sup>    |
| UNEMPLOYED (% OF LABOR FORCE)                        | ..                                     | 7.0                  | ..                      | 5.0 <sup>/a</sup>          | 9.0                  | 12.0 <sup>/b</sup>    |
| <b>INCOME DISTRIBUTION</b>                           |  |                      |                         |                            |                      |                       |
| <b>% OF PRIVATE INCOME REC'D BY-</b>                 |  |                      |                         |                            |                      |                       |
| HIGHEST 5% OF HOUSEHOLDS                             | 36.8 <sup>/c</sup>                     | ..                   | ..                      | ..                         | 28.4 <sup>/c</sup>   | 23.5 <sup>/d</sup>    |
| HIGHEST 20% OF HOUSEHOLDS                            | 62.5 <sup>/c</sup>                     | ..                   | ..                      | ..                         | 54.5 <sup>/d</sup>   | 55.5 <sup>/d</sup>    |
| LOWEST 20% OF HOUSEHOLDS                             | 3.2 <sup>/c</sup>                      | ..                   | ..                      | ..                         | 3.9 <sup>/c</sup>    | 4.2 <sup>/d</sup>     |
| LOWEST 40% OF HOUSEHOLDS                             | 9.4 <sup>/c</sup>                      | ..                   | ..                      | ..                         | 10.6 <sup>/c</sup>   | 11.4 <sup>/d</sup>    |
| <b>DISTRIBUTION OF LAND OWNERSHIP</b>                |  |                      |                         |                            |                      |                       |
| % OWNED BY TOP 10% OF OWNERS                         | ..                                     | ..                   | ..                      | ..                         | ..                   | 53.0 <sup>/e</sup>    |
| % OWNED BY SMALLEST 10% OWNERS                       | ..                                     | ..                   | ..                      | ..                         | ..                   | 0.5 <sup>/e</sup>     |
| <b>HEALTH AND NUTRITION</b>                          |  |                      |                         |                            |                      |                       |
| POPULATION PER PHYSICIAN                             | 20000.0 <sup>/a</sup>                  | 14940.0              | 14520.0                 | 12950.0 <sup>/b</sup>      | 12140.0              | 5950.0                |
| POPULATION PER NURSING PERSON                        | ..                                     | 2410.0               | 2030.0                  | 1070.0 <sup>/b</sup>       | 2480.0 <sup>/d</sup> | 730.0 <sup>/f</sup>   |
| POPULATION PER HOSPITAL BED                          | 760.0 <sup>/e</sup>                    | 730.0 <sup>/b</sup>  | 750.0 <sup>/a</sup>     | 760.0                      | 680.0 <sup>/d</sup>  | 410.0 <sup>/h</sup>   |
| <b>PER CAPITA SUPPLY OF -</b>                        |  |                      |                         |                            |                      |                       |
| CALORIES (% OF REQUIREMENTS)                         | 97.0                                   | 97.0                 | 100.0                   | 96.0                       | 108.0                | 86.0                  |
| PROTEIN (GRAMS PER DAY)                              | 64.0                                   | 64.0                 | 65.0                    | 46.0                       | 60.0                 | 54.0                  |
| OF WHICH ANIMAL AND PULSE                            | ..                                     | 28.0 <sup>/c</sup>   | ..                      | 10.0 <sup>/c</sup>         | 18.0 <sup>/e</sup>   | 14.0 <sup>/h</sup>    |
| DEATH RATE (/THOU) AGES 1-4                          | ..                                     | ..                   | ..                      | ..                         | ..                   | 1.5 <sup>/e,i</sup>   |
| <b>EDUCATION</b>                                     |  |                      |                         |                            |                      |                       |
| <b>ADJUSTED ENROLLMENT RATIO</b>                     |  |                      |                         |                            |                      |                       |
| PRIMARY SCHOOL                                       | ..                                     | 38.0 <sup>/d</sup>   | 43.0                    | 58.0                       | 76.0                 | 107.0                 |
| SECONDARY SCHOOL                                     | ..                                     | 15.0 <sup>/d,e</sup> | ..                      | 9.0                        | 11.0                 | 20.0                  |
| YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL) | 13.0                                   | 13.0                 | 13.0                    | 15.0                       | 13.0                 | 13.0                  |
| VOCATIONAL ENROLLMENT (% OF SECONDARY)               | ..                                     | 7.0                  | ..                      | 23.0                       | 7.0                  | 34.0                  |
| ADULT LITERACY RATE (%)                              | ..                                     | 10.0                 | 10.0                    | ..                         | 20.0                 | ..                    |
| <b>HOUSING</b>                                       |  |                      |                         |                            |                      |                       |
| PERSONS PER ROOM (AVERAGE)                           | 1.5 <sup>/f</sup>                      | ..                   | ..                      | ..                         | ..                   | 2.7 <sup>/b</sup>     |
| OCCUPIED DWELLINGS WITHOUT PIPED WATER (%)           | 12.0                                   | ..                   | ..                      | ..                         | ..                   | 60.0 <sup>/b</sup>    |
| ACCESS TO ELECTRICITY (% OF ALL DWELLINGS)           | 96.0                                   | ..                   | ..                      | ..                         | ..                   | 24.0 <sup>/b</sup>    |
| RURAL DWELLINGS CONNECTED TO ELECTRICITY (%)         | ..                                     | ..                   | ..                      | ..                         | ..                   | ..                    |
| <b>CONSUMPTION</b>                                   |  |                      |                         |                            |                      |                       |
| RADIO RECEIVERS (PER THOU POP)                       | 47.0                                   | 69.0                 | 67.0                    | 78.0                       | 17.0                 | 77.0                  |
| PASSENGER CARS (PER THOU POP)                        | 8.0                                    | 9.0                  | 9.0                     | 4.0                        | 11.0                 | 13.0                  |
| ELECTRICITY (KWH/YR PER CAP)                         | 47.0                                   | 73.0                 | 92.0                    | 338.0                      | 120.0                | 155.0                 |
| NEWSPRINT (KG/YR PER CAP)                            | 0.1                                    | 0.1                  | 0.1                     | 0.4                        | 0.2                  | 0.1                   |

SEE NOTES AND DEFINITIONS ON REVERSE



SECTOR BRIEFSAgriculture

1. Agriculture plays a central role in Senegal's economy, employing over 70% of the total labor force. Although it contributed only 38% of GDP in 1974, the sector's leverage on the economy is and will remain considerable through its impact on exports and its purchasing power for locally produced goods and services. Groundnuts and millet are the country's main agricultural products, and groundnuts - in the form of processed oil and groundnut cake - are the country's principal export. During the last four years, groundnuts have comprised between 35 and 55% of commodity exports and generated about 60% of value-added in the agricultural sector. Millet continues to be the staple food grain, although rice and wheat consumption are increasing rapidly, particularly in urban areas.

2. After independence, Government continued to concentrate on producing groundnuts rather than food crops, assuming that foreign exchange earned from groundnuts would be more than sufficient to pay for any imported food. However, the series of droughts beginning in 1968, low world prices and a heavy tax on groundnut production which proved a disincentive for the farmer resulted in Senegal's groundnut production declining from an average of about one million tons during most of the 1960s to 750,000 tons from 1968 to 1972. More favorable weather conditions in 1974 and 1975 plus Government's decision to increase producer prices and the cumulative effect of agricultural development projects, in which the Bank Group has played a major role, have brought groundnut production back to one million tons in addition to increases in other crops.

3. Because of the heavy concentration of population in the Groundnut Basin, the improvement of productivity <sup>1/</sup> for groundnuts and cereals in this area has been the only practical short-term means for improving the livelihood of most of the rural population. However, since the agricultural potential of the Groundnut Basin is severely limited by its unreliable rainfall and generally poor soils, Government is now placing greater emphasis on programs outside this area designed to give the country some measure of protection against the most severe effects of droughts. These programs include: (i) diversifying production by promoting rice and cotton in regions of higher rainfall such as Eastern Senegal and Casamance; (ii) developing the irrigation potential of the Senegal River Basin and of Casamance; and (iii) promoting livestock development in Eastern Senegal and resettling farmers in this region from the more populated Groundnut Basin. The Bank Group has supported this strategy with a total of nine operations amounting to \$43.8

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<sup>1/</sup> Originally through the minimum package Programme Agricole which is now widespread, and increasingly through provision of more advanced technology (ox traction, heavier fertilization and provision of extension services to farmers).

million in addition to a Livestock Project in Eastern Senegal and a Second Casamance Rice Project to go to the Board in June. There are now Bank Group operations in all but one region of Senegal. This regional approach, which supports efficient regional agencies which Government has established or is in the process of creating, has proved to be the most effective way of promoting rural development in Senegal.

4. There are a number of important issues with which Senegal's future agricultural strategy must deal. ① Producer prices should remain high enough to stimulate farmers to increase production yet input subsidies, particularly on fertilizer 1/ and equipment, should be gradually eliminated as they pose a heavy and probably unnecessary burden on government finances. The national marketing organization, in spite of heavy technical assistance from the Second Agricultural Credit (FY73) remains in financial and organizational disarray. Consequently, Government's policy of promoting semi-autonomous development agencies, organized on either regional or product lines, to provide extension services to farmers should be expanded gradually to take over marketing functions and assistance to the country's 2,200 cooperatives. In the long run, there are definite limits to improving rainfed agriculture, and if Senegal's food needs are to be satisfied and rural incomes increased, more emphasis must be placed on irrigated crop production and on opening up new areas with agricultural potential to migration. The latter will require a commitment to increase physical and social infrastructure through integrated rural development projects since migrants will be reluctant to go to new lands with an infrastructure level substantially below the areas they are leaving. Further agricultural development means increased production of cereals as there are technical limits - soil conditions, rotation requirements - to the area which can be switched to groundnuts. Cereal marketing should be strengthened and research is underway to make millet suitable for urban consumption. Development of millet as a cash crop is also related to reduction in the drought risks but Government's idea of storing a full year of millet consumption would seem excessive. 2/ Finally, the possibility that the Common Market will adopt more stringent regulations on the aflatoxin content of imported groundnut cakes, essential to overall groundnut profitability, could pose a serious problem for Senegal. High aflatoxin levels usually result from mold growing on groundnuts due to inadequate storage and transportation to the groundnut processing plants. We shall follow this question closely since the introduction of lower tolerances for aflatoxin might require an emergency program of investment in the agricultural sector.

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1/ A study of fertilizer use in Senegal financed under an IDA credit is now underway.

2/ A study of cereals marketing and storage is being financed by the Sine Saloum Project (FY75).



5. During the coming four to five years, possibilities for groundnut and cereal intensification are limited by the large number of projects already underway. Further increases in production should come from opening up new land, mainly in Eastern Senegal and Casamance; this will most likely be one of the most profitable investments Senegal can make. However, manpower in these regions is already a constraint and inward migration to these areas will determine the scope of such programs. The migration issue will also remain crucial for the Groundnut Basin. With the Government focusing on the more profitable regions, hardly any public investment is being made in the northern Groundnut Basin. In that region rural incomes can only be increased by introducing intensive techniques that will simultaneously allow farmers to crop larger surfaces. The Government is thinking about the introduction of motorized traction, which would require careful study because of technical and environmental complications. With the natural demographic growth, such a policy would soon run into a land constraint. Only the coastal areas would allow for diversification into vegetable production because of the presence of fresh groundwater and urban markets nearby. We have included a vegetable project in the reserve list for FY80.

6. The Bank Group will continue to support Government's basic strategy in this sector and concentrate on our regional approach to agricultural development. The regional plan for Eastern Senegal financed under the Second Terres Neuves Project could result in an integrated rural development project in FY79S. By this time, there should be enough experience from the West African campaign against River Blindness to include an eradication component in this project and open up a large area of Eastern Senegal to agricultural development. A project is included in FY81 to develop Lower Casamance. A second stage Sine Saloum project to extend the present project is scheduled for FY80. Following discussion of the recent agricultural sector report with Government, we intend to send an identification mission to Senegal to assist Government's preparation of the agricultural component of its next Plan and to prepare additional projects for Bank Group financing. One possibility is assisting Government's reform of the rural sector. In 1972, Senegal began a broad administrative reform of the rural areas as part of its policy of Government decentralization. This reform is already effective in the northern and central Groundnut Basin and is now being carried out in Sine Saloum before being extended to the rest of the country over the next few years. The basic administrative unit in this reform is the rural community, which includes a number of villages with about 10,000 inhabitants and which has an autonomous budget financed by a rural tax. We shall investigate whether the rural communities and associated cooperatives could benefit from the establishment of a rural development fund.

#### Livestock

7. In spite of relatively favorable conditions, Senegal has made little use of its comparative advantages in the livestock sector which suffers from

a lack of adequate production infrastructure, extension services, commercialization channels and assistance to traditional pastoralists who own most of the cattle. The Eastern Senegal Livestock project (FY76) will develop a grazing scheme on about 1.4 million ha, improve animal health services, and improve institutions dealing with this sector. It is also the country's first comprehensive effort to increase livestock production by traditional pastoralists. A second livestock project (FY81) will in all probability be in the Cap Vert area and aimed at the Dakar market.

8. Fish production has been growing at about three times the rate of total GDP during the last decade because of an expansion of both traditional canoe fishing and modern fisheries. Government's objective in this sector is to secure a larger portion of fishing benefits for the country, as witnessed by the decision to extend territorial waters and to go ahead with a large fishing wharf in the Port of Dakar to be financed by the Bank and other donors. We are also in the process of identifying a fishing project which may provide some support to the more traditional sector while accelerating the modernization of Senegalese fishing.

Lending:

|              |                      |                |      |
|--------------|----------------------|----------------|------|
| FY76         | Terres Neuves II     | \$2.0 million  | IDA  |
| FY76         | Livestock            | \$4.2 million  | IDA  |
| FY76         | Sedhiou II           | \$6.3 million  | IDA  |
| FY79S        | Fisheries            | \$10.0 million | IBRD |
| FY79S        | Rural Development    | \$10.0 million | IDA  |
| FY80         | Sine Saloum II       | \$15.0 million | IDA  |
| FY81         | Lower Casamance      | \$15.0 million | IDA  |
| FY81         | Livestock II         | \$5.0 million  | IDA  |
| FY80 Reserve | Vegetable Production | \$10.0 million | IBRD |

OMVS, Development of the Senegal River Basin

9. OMVS, the regional organization composed of Senegal, Mauritania and Mali, has prepared a long range development program, based on two dams on the Senegal River, that would ultimately permit development of year-round irrigation of about 430,000 ha along the river of which about 220,000 would be in Senegal. The OMVS program also provides for power generation, river navigation, mining and agro-industries. The Bank has been actively involved with other donors in assessing the merits and feasibility of the OMVS program. At this stage, subject to the results of detailed feasibility studies of other components, we believe the economic justification of the program should and could rest basically upon agricultural development.



10. OMVS has been faced with a number of difficult problems which impede its rapid realization including: (i) the absence of a strong executing agency; (ii) the need to harmonize the individual interests of the three countries in a program package rather than taking projects one-by-one as they are prepared and presented; (iii) the unresolved issue of water rights; and (iv) the allocation of costs and benefits for the common infrastructure. To solve these problems, OMVS is in the process of restructuring itself from a Secretariat, in the past concerned mostly with supervising general planning, into a High Commission which can plan, execute and manage large river basin projects. The Bank was approached in early 1975 by President Senghor, presently head of the OMVS Chiefs of State, and by UNDP to be executing agency for UNDP technical assistance to OMVS. We are continuing to discuss this possibility with the new OMVS High Commissioner, Mr. Mamadou Aw, as he seems to want the opportunity to obtain high calibre advice from a politically unbiased institution like the Bank.

11. The Bank's current views on OMVS are:

- A. Irrigation of the Senegal River Valley is a crucial element in the long-term economic development of Senegal and Mauritania, since the climate imposes limits on the production and employment possibilities of rainfed agriculture. Moreover, without continuing growth of agricultural production, food deficits will increase, depleting the growth of export revenues. Consequently, we would support irrigation development associated with the program and would finance projects such as River Polders (FY73) and Debi Lampsar Engineering (FY75). We shall also make a special effort to promote equal development by assisting Mauritania in increasing its institutional capacity to realize its share of the irrigation benefits.
- B. We believe the Diama dam at the mouth of the Senegal River, which would serve as a salt water barrier and provide water for 30,000 ha of double cropping in Senegal and Mauritania, should be built as quickly as possible. We would be willing, subject to detailed engineering and design studies which we understand will be financed by France, to participate in its financing, although this seems to be already assured by various donors on a grant basis.
- C. Since irrigation potential associated with Diama would be exhausted by the early 1980s, there is a clear need for a large upstream regulatory dam. However, the site of Manantali which has been chosen by OMVS would require for its justification a market for its power which is now uncertain and a pace of irrigation development which we consider overly optimistic, given the lack of trained technicians and of farmers familiar with modern agriculture. In addition, escalating

costs for Manantali and the possibility that technical disadvantages of the Manantali site might be discovered have led us to conclude that other dam alternatives should be investigated along with Manantali. For political and psychological reasons, however, OMVS remains wedded to Manantali alone and, since Germany appears prepared to finance detailed engineering and design studies plus reportedly 20% of the dam costs, we do not feel we should interfere in this area.

- D. With regard to other components of the OMVS program -- river navigation, ports, power and mining -- the Bank does not have sufficient information to make a judgement.

12. For the near future, we shall continue to be ready to consider our role in providing technical assistance to OMVS, if requested, and to look for other areas of the OMVS program which seem economically feasible, perhaps studies of the market for power and mining. However, our concentration will remain in irrigation development where it will be necessary to mobilize hundreds of millions of dollars over the next two decades. We shall do this through financing specific irrigation programs, attracting other donors to well-prepared projects, and through improving the organizational capacity of national institutions responsible for irrigation development. In Senegal, the Debi Lampsar Irrigation Engineering Project is financing final engineering and design of 5,000 ha of double crop irrigation and assisting SAED <sup>1/</sup> in determining its near and medium-term organizational needs. The Debi Lampsar Irrigation Development Project (FY78) will be ready for appraisal in late 1976 and we shall consider an integrated approach to irrigation development by including other sectors such as education, health and livestock development in this project. We believe that following this project, SAED will have gained sufficient experience and expertise in irrigation development from working with the Bank and other agencies, so that we might be able to begin program lending. The Bank, together with other donors, could then consider establishing an irrigation fund from which SAED could finance further irrigation at its own pace. We therefore propose to include \$15 million in FY80 for a first Irrigation Fund Project.

lending:

|      |                 |                |     |
|------|-----------------|----------------|-----|
| FY78 | Debi Lampsar    | \$18.0 million | IDA |
| FY80 | Irrigation Fund | \$15.0 million | IDA |

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<sup>1/</sup> SAED is responsible for irrigation development in the Senegal River Region and has proven so far an effective project implementation agency. However it will have to expand the size and scope of its operations to cope with the OMVS program.



Industry 1/

13. Senegal has a long tradition of industrial production. Before independence in 1960, its manufacturing sector (including groundnut processing, light consumer goods industries, railways and ship repair facilities) served most of former French West Africa, a market of 20 million people. After independence, and in spite of the difficulties in adjusting to a smaller market, economic growth in Senegal has been largely attributable to the dynamic role of the industrial sector which has had an annual rate of growth of 6-7%. Even in 1974 with the unfavorable world economic situation, industrial activity increased 6.2% over the previous year. Growth in this sector is largely explained by the textile/leather and mechanical/electrical sub-sectors, which accounted for almost 60% of the increase in value-added in the past ten years, while foodstuffs and chemical industries represented another 25% of the total increase. Whereas industrial production was mainly oriented to import substitution in the first part of the 1960s, growth of exports largely contributed to the increase in industrial output in the latter part of the 1960s. These new markets were found for the most part within former French West Africa, although some firms (textiles) have proved to be competitive in the markets of developed countries.

14. Senegal's strategy for future industrial development is basically four-fold:

First, while industrial production should increase in the future through greater local consumption commensurate with an expanding economy, and to some extent with development of exports to the CEA0 countries, the real potential for Senegalese industry lies with exports to developed countries. Orienting the sector towards developed countries will not be easy. Although a few firms have already been successful, several obstacles which are common to small and medium sized African countries make the transition from African-oriented to world-oriented exports difficult: high quality standards on the world market put special pressure on skilled labor and managerial ability which are typically in short supply; and in order to be competitively priced, most products must be manufactured on a large scale to which local entrepreneurs are not accustomed and which require substantial investment. In addition, high tariff protection of local industry in Senegal has allowed inefficiencies while some clauses of the Investment Code about priority enterprises have introduced a bias in favor of larger firms at the expense of small Senegalese enterprises and have favored the creation of oligopolistic situations. 2/ Central to Government's effort to

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1/ In 1972, this sector accounted for about 15 percent of GDP, as compared to 8 percent in 1960, and employed about 20,000 persons or 14 percent of wage earners.

2/ Government is considering changes in the system of taxation and investment incentives. The Bank has offered to send a mission to Senegal to assist in this effort following the recent West African industrial study by Prof. Bela Balassa.

promote exports is the development of the 65 ha first phase of an Industrial Free Trade Zone at Mbao near Dakar which should be completed by January 1977 with financing from Iran, and France. Companies establishing themselves in the zone will have to make a minimum investment of about \$900,000 and employ at least 150 Senegalese with preference given to industries which are labor-intensive and have high value-added.

Second, an element of Government's industrial policy is the promotion of large projects: the proposed Dakar Marine Ship Repair Yard, the agro-industrial complex at Richard Toll, the Faleme iron ore mine, 1/ the Pahlavi complex, 2/ and the Free Trade Zone. Government has shown an unfortunate tendency to make political commitments to large scale projects like these before, or in lieu of, serious economic feasibility studies. However, there would seem to be a prima facie case for the two projects which are the farthest along -- Richard Toll and the Free Trade Zone, and two of the others (Dakar Marine and Pahlavi) have been presented to the Bank for study; the latter appear as reserve projects in the lending program.

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- 1/ France and Germany are financing feasibility studies for an iron ore mine and pelletizing plant at Faleme in Eastern Senegal, 700 km from Dakar and 250 km from the main railway line. The Faleme ore deposits have been estimated at 1.2 billion tons with planned annual evacuation, probably by railroad through the Pahlavi port, of 5-6 million tons of pellets. The feasibility studies are not yet at a point where transportation of the iron ore has become a serious concern although Government has indicated evacuation might not be done by the Senegal railways but perhaps by another company which might use some of the same infrastructure. It is possible that Bank financing would be needed to assist either the mine or the railroad elements of this project or both. A decision on this can only be taken after further developments in project preparation and, as a result, a reserve project of \$20 million has been indicated for FY81.
  - 2/ Iran and Senegal have formed IRASENCO to build a 1.5 million ton a year refinery to export crude purchased from Iran, a new phosphate mine at Tobene to export 2 million tons a year to Iran, and a small ammonia and urea plant. IRASENCO would have paid-in capital of \$80 million with Senegal's 50% participation financed by an Iranian loan of \$40 million at 8 percent interest repayable in 14 years with four years grace. IRASENCO would borrow with the guarantee of Iran and Senegal the approximately \$256 million needed for its investment program. Senegal by itself will be responsible for financing infrastructure associated with the project including a \$110 million mineral/petroleum port near Cayar, \$50 million for power generation and \$20 million for road/rail, water and telecommunications. Major questions remain about the export market for the refinery's output and the justification of making major new investments versus expanding the present refinery and using existing infrastructure.



A third part of Government's sector strategy is to increase Senegalese participation in management and ownership. In 1972, 80% of executives and senior technicians were Europeans and 85% of industrial assets were owned by French investors. Government now requires industrial concerns to present plans to train Senegalese and place them in management positions by 1981. Government is also in the process of creating a transfer fund so Senegalese can buy out small foreign-owned companies and buy shares in larger ones. Government has already purchased 51% of the existing phosphate mines and is buying the foreign-owned peanut oil processing plants. Unhappily, both of these purchases were made as each of their commodity's prices had peaked and was starting to decline.

Fourth, Government is providing technical assistance and financial support for small and medium sized industries. SONEPT provides seed money and technical assistance for small scale industry although its performance has been disappointing. SOFISEDIT, created with assistance by the Bank and IFC, is providing long-term capital to medium sized industries. Government has tried to promote industrial development outside of the Dakar area but, with certain exceptions based on access to raw materials, this will be very difficult to achieve.

The Bank's strategy in the industrial sector has so far been to concentrate on improving manpower training and credit availability and to finance the engineering studies for the Dakar Marine Ship Repair Yard. With regard to the first two, an industrial upgrading school was financed under the Second Education Project and may be further expanded if the need arises. In FY74 to overcome the insufficiency of medium and long-term credit for medium size private sector investment, the Bank Group through a combination IBRD loan and IFC investment and the secondment of a Bank Staff member assisted in the establishment of a new semi-public development Bank SOFISEDIT. SOFISEDIT has gotten off to a very sound start and has established a good reputation in Senegal. It has approved in its first year of operation 11 projects totalling about \$2.7 million (60% in industry, 40% in tourism) and expects to finance another \$5.3 million before September 1976. <sup>1/</sup> A second project, appraised in December 1975, will be proposed to the Board in FY77. In 1976 we shall send a special mission to investigate the small scale industry sub-sector which may result in a project in this area. We shall also explore the needs in both basic and applied technical and business education which is in great shortage and has a very high social rate of return if account is taken of the cost of expatriate labor.

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<sup>1/</sup> We expect SOFISEDIT will have an important part in financing industries in the Free Trade Zone and hotels to be built under the proposed Petite Cote Tourism Project appraised in December 1975.

In FY74 the Bank, together with the European Investment Bank and FAC, financed technical and economic feasibility studies for the Dakarmarine dry dock and ship repair project which could handle very large tankers and bulk carriers up to 500,000 DWT. Since the studies began, major uncertainties have arisen <sup>1/</sup> which suggest the project is less than marginal. It has been left to the Bank Group to tell Government that certainly the full scale project and probably not even a reduced project should go ahead. The Government has been politically and publicly committed to Dakarmarine and our reluctance to go along with what we consider a project with very high risks and very low rewards has not been popular in Senegal. Nevertheless, the Government has heeded our advice and appears to be quietly shelving the project for the moment; furthermore, we have just been asked to evaluate the Pahlavi project to which the Government appears publicly to be equally wedded.

Lending:

|              |                             |              |         |
|--------------|-----------------------------|--------------|---------|
| FY77         | DFC                         | \$ 4 million | IBRD/TW |
| FY80         | DFC/Small Scale Industry    | \$10 million | IBRD    |
| FY79 Reserve | Tanker Repair (Dakarmarine) | \$30 million | IBRD    |
| FY80 Reserve | Keur Farah Pahlavi          | \$20 million | IBRD    |
| FY81 Reserve | Faleme Iron Ore             | \$20 million | IBRD    |

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<sup>1/</sup> Inter alia, the opening and probable widening of the SUEZ Canal, the establishment of competing ship repair yards, particularly in the Middle East (Dubai and Bahrein), slower than anticipated growth in oil consumption in industrialized countries and thus in transportation requirements, changing oil transportation patterns due to new discoveries and refining in producing countries, depression in the ship construction industry leading many yards to offer low cost repair contracts, changes in ship repair technology, etc.



SENEGAL

Lending Program FY78-82  
(US\$ million)

FY 78

Technical Assistance  
Irrigation III  
Rail III

IBRD

IDA

6.0

20.0

10.5

10.5

26.0

FY 79

Education III  
Highways IV

20.0

20.0

20.0

20.0

FY 80

Feeder Roads  
Fisheries  
DFC (SOFISEDIT)  
Port  
Water Supply

10.0

20.0

10.0

10.0

14.5

64.5

FY 81

Tourism  
SINE SALOUM  
Irrigation IV  
Urban

10.0

10.0

15.0

13.0

20.0

28.0

FY 82

Telecommunications II  
Livestock II  
Water Supply  
Port III  
Rural Development

10.0

5.0

10.0

15.0

5.0

35.0

10.0

Total FY 78-82

150.0

84.0

Extract from RLP  
10/18/77

b) Statement of IFC Investments (as of October 15, 1977)

| Year                              | Obligor                                   | Type of Business            | Amount (US\$ Million) |                   |             |
|-----------------------------------|---|-----------------------------|-----------------------|-------------------|-------------|
|                                   |   |                             | Loan                  | Equity Investment | Total       |
| 1967                              | Societe Industrielle d'Engrais au Senegal | Fertilizer Plant            | 2.45                  | 1.01              | 3.46        |
| 1972)<br>1973)<br>1976)           | BUD Senegal S.A.                          | Vegetable Export            | -                     | 0.87              | 0.87        |
| 1974                              | SOFISEDIT                                 | Development Finance Company | -                     | 0.21              | 0.21        |
| Total Gross Commitments           |   |                             | 2.45                  | 2.09              | 4.54        |
| Less Cancellations, Terminations  |   |                             | <u>2.14</u>           | <u>.37</u>        | <u>2.51</u> |
| Total Commitments now held by IFC |   |                             | <u>.31</u>            | <u>1.72</u>       | <u>2.03</u> |
| Undisbursed balance               |   |                             | -                     | -                 | -           |



## 2. Existing Projects

2.1 Project execution, especially in education and highways, is proving difficult due essentially to: (i) lack of counterpart funds because of Government's difficult public finance situation; (ii) lack of counterpart staff in key positions; (iii) excessive and time-consuming administrative procedures on the one hand, and little real management supervision by Government on the other; and (iv) a tendency for the Senegalese to pay more attention to new commitments than to proper execution of ongoing projects. We discussed these issues with Government during the recent Annual Meeting. With regard to the general situation of the country's finances and Government control of public enterprises and mixed companies, in particular those which are channels for Bank Group assistance, we shall try to resolve some of the issues on a sector-wide basis through the para-public sector technical assistance project appraised in July 1977. The following is a listing of Bank Group operations in Senegal:

Cr. 252                      Casamance Rice Project; US\$3.7 Million  
Credit of June 18, 1971; Effective January 6, 1972  
Closing Date: June 30, 1977

Project progress has been satisfactory, and production targets established at appraisal have been exceeded. The project is finished, and a completion report is being prepared. A follow-up project was approved by the Board in June 1976 (Cr. 647).

Cr. 253                      Technical and Agricultural Education Project; US\$2.0 Million  
Credit of June 18, 1971; Effective November 30, 1971; Closing  
Date: June 30, 1977

All components have been implemented. There was a substantial cost overrun on the project, largely attributable to inflation as a result of delays in design, as well as to currency realignments; the Government has financed the overrun. A Project Completion Report is being prepared.

Cr. 254                      Terres Neuves Settlement Project; US\$1.35 Million Credit of  
June 18, 1971; Effective January 31, 1972; Closing Date:  
December 31, 1977

The project's settlement program was completed on schedule as anticipated at appraisal. The project has been successful in providing higher incomes than expected for settlers, and has attracted families with more adult workers than originally anticipated. Three hundred families have been settled as envisaged, and there are about 2,300 people in the six settler villages. The necessary social infrastructure is being completed. Adequate and evenly distributed rainfall ensured good crops during the last seasons. Societe des Terres Neuves (STN) (the State Corporation in charge of the project) is taking measures to solve the problems relating to financial management, audit and project monitoring. The Credit is expected to be fully disbursed shortly.



Cr. 314/  
Ln. 835      Second Railway Project: US\$3.2 Million and US\$6.4 Million  
Credit and Loan of June 23, 1972; Effective December 29, 1972;  
Closing Date: December 31, 1977

The original project was substantially modified to reduce track renewal works in favor of making funds available to purchase spare parts for track laying and maintenance equipment and for locomotives. Track renewal has now been completed, as well as procurement for workshop rehabilitation and track equipment, and orders have been placed for locomotive spare parts. Rehabilitation of workshops is now underway and is expected to be completed by mid-1977. All material for modernization of freight cars has been ordered, but the delivery time for some parts is extremely high, and delays in work execution can be expected; according to the Railway's planning schedule, the modernization program will probably not be completed before about March 1978. As a result of sustained efforts by the Bank, a new General Manager has been appointed, and a highly qualified French engineer has been recruited to fill the new position of Deputy General Manager. Much improvement is still needed, however, in management efficiency and training, and this will be the focus of a proposed Third Railway Project appraised in February 1977.

Cr. 336      Site and Services Project; US\$8.0 Million Credit of  
September 29, 1972; Effective August 31, 1973; Closing  
Date: June 30, 1979

Project execution is about six months behind schedule due to delay in approval of contracts caused by lack of counterpart funds. However, a first disbursement of counterpart funds took place in February 1977, allowing work to resume. To speed up the completion of priority infrastructure, the percentage of IDA fund disbursement has been temporarily increased from 45% to 67%. This increase was made possible by the postponement of construction of community facilities beyond June 1978; their construction according to the October 1976 schedule was no longer justified in view of the slow pace of plot occupancy. The percentage of IDA disbursement will be reduced after June 1978 to a level consistent with the balance of IDA funds. Most of these funds will then be used to help finance the construction of community facilities which should be completed by June 1979. The project will continue to receive close supervision.

Ln. 866      Telecommunications Project: US\$6.25 Million Loan of December 19,  
1972; Effective June 5, 1973; Closing Date: December 31, 1979

Large cost overruns have raised the cost of this project from US\$8.9 million at appraisal to US\$20 million according to recent estimates. A co-financing formula was successfully worked out which included a loan from the French Caisse Centrale de Cooperation Economique (CCCE) of US\$4 million, new French suppliers' credits of US\$4 million, and an increased contribution from the borrower, Office des Postes et Telecommunications du Senegal (OPTS). The new financial package and conditions of the CCCE loan were accepted by the Senegalese Government and the agreement would enable the project to be completed as originally appraised. The impact of the additional investments



on OPT's financial position cannot yet be determined because the accounts and financial statements have not been audited recently, and because OPT has not introduced an analytical accounting system providing for separation of telecommunications and postal/financial operations. The Commission des Comptes is currently undertaking the first full-scale audit of OPT's accounts and financial statements as of the end of FY 76. The Government has authorized payment of arrears to OPT, but actual disbursement has not yet taken place due to the weak financial position of the Treasury. As far as the physical execution of the project is concerned, some progress has been made, but due to uneven timing of the execution of different components, completion is not now expected before mid-1979.

Cr. 350                    River Polders Project; US\$4.5 Million Credit of January 9, 1973; Effective June 8, 1973; Closing Date: December 31, 1977

Procurement has been completed for the main components of the project, and contracts have been awarded. Construction of works is progressing satisfactorily. The Senegalese authorities requested that the Debi Lampsar components of the project be dropped and reformulated within the broader framework of integrated development of the Senegal River Basin; the proposed reformulation was agreed upon by IDA, and an engineering project for Debi Lampsar was appraised in December 1974 and approved by the Board in April 1975. The Credit was fully disbursed by end-March 1976. The Credit proceeds were not sufficient to complete the project, despite the deletion of the Debi Lampsar component, because of the effects of price increases, currency fluctuations, and additional works undertaken. However, Government is channelling about US\$2.0 million into the project, and the implementing agency SAED (Societe d'Amenagement et d'Exploitation des Terres du Delta) is presently seeking about US\$1.0 million in supplementary financing from Government to complete the final 500 ha of the project.

Cr. 366                    Second Highway Project; US\$8.0 Million Credit of April 9, 1973; Effective November 28, 1973; Closing Date: December 31, 1978

The project consists of pavement strengthening of primary roads, implementation of a four-year maintenance program, and preinvestment studies and a review of feeder road requirements. The strengthening program was reduced from 109 km originally scheduled to about 35 km due to construction costs being much higher than estimated at appraisal, the effects of inflation, and also because all the unallocated funds under the Credit were devoted to maintenance operations. Construction was satisfactorily completed early in 1976, about 15 months later than anticipated. The highway maintenance program is progressing, but well behind schedule, primarily due to the slowness of Government services in implementing consultants' recommendations, as well as to the shortage of supervisory personnel. The preinvestment studies for 228 km of primary roads, and the review of feeder road requirements, were successfully completed in mid-1975.



Cr. 404

Second Agriculture Credit Project; US\$8.2 Million Credit of June 25, 1973; Effective November 28, 1973; Closing Date: June 30, 1977

The 1975/76 season was good: groundnut and cereal production reached their highest levels since 1969. Results of the 1976/77 season are not yet available, but fertilizer use did increase from 80,000 to about 100,000 tons. Demand for short and medium-term credit remained stronger than anticipated, but available credit funds were sufficient to meet requirements. Government is eliminating the subsidy on some farm implements, and reducing the subsidy on fertilizers. The on-going study on fertilizer applications financed under the Credit should provide a basis for policy review in due course. Major organizational and financial problems still exist at ONCAD despite technical assistance provided since 1969. Steps taken by Government in early 1975 to remedy this serious situation--maintaining staff levels, giving ONCAD management more financial autonomy, and strengthening it with qualified accountants--resulted in some improvement, especially in accounting. However, ONCAD's overall performance has not improved, and the organization remains overstaffed. ONCAD credit requirements attained record levels partly because of accumulating operating losses, but mainly because of the large groundnut and millet stocks and prolonged prefinancing for Government's account.

Ln. S-3

Ship Repair Engineering Loan: US\$0.6 Million Loan of September 20, 1973; Effective February 5, 1974; Closing Date: September 6, 1977

The project consists of carrying out the following studies to determine the feasibility of a dry dock project:

- a. Technical studies including those of physical and geophysical factors affecting site selection.
- b. Economic studies including a market survey, a revision of the dry dock project feasibility study and a survey formulating a training program.

The studies have now been completed; they indicate low economic and financial returns, and a relatively high market risk. The Government is exploring possible financing and ways of reducing the market risk.

Cr. 446

Drought Relief Project; US\$3.0 Million Credit of December 7, 1973; Effective February 5, 1974; Closing Date: July 31, 1977

The project is part of the Senegalese plan to rehabilitate people in drought-affected areas by helping them redevelop and improve their farms and lands. Equipment and operating costs financed under the Credit have enabled some Government services to achieve efficient performance levels, and overall, the project is progressing satisfactorily. Areas destroyed by bush fires in 1975/76 have decreased by 50% compared with the previous year, and



animal health services have been able to visit and vaccinate an increasing number of animals, which reflect the reconstitution of the national herd severely affected by the 1972 drought. Government and IDA are discussing reducing the scope of the well digging program, the last component of the project, and rescheduling its execution, since costs proved to be higher than expected partly because works involved remote locations and difficult terrain.

Ln. 987                    SOFISEDIT Project; US\$3.0 Million Loan of May 24, 1974;  
Effective November 22, 1974; Closing Date: December 31,  
1978

SOFISEDIT was created by the Government in March 1974 for the purpose of providing long-term financing for development enterprises in industry and tourism. To recruit the initial staff and to find office space took several months, and the company did not start operations until November 1974. From its inception until June 30, 1976, SOFISEDIT had approved 19 loans totalling about US\$6.2 million equivalent, and five equity investments totalling about US\$384,000 equivalent. The loan to SOFISEDIT was expected to be fully committed by the end of 1976, and funds from a second Loan of US\$4.2 was approved.

Cr. 530                    Second Education Project; US\$15.0 Million Credit of  
February 19, 1975; Effective April 22, 1975; Closing Date:  
June 30, 1980

This project aims to help Senegal meet its modern sector needs through rehabilitating existing vocational training schools, and providing new ones, for industry, fishing and the hotel trade. The project also provides practical training for the rural population through an experimental scheme of 30 village education centers, and creates science teaching facilities for lower secondary schools as well as building four new schools. Project construction is between 12 and 24 months behind schedule. The industrial vocational training center has been constructed and equipment is being procured; the principal technical advisers are already engaged in planning training courses with industry. Design work on the lower secondary schools has been completed, and bids for construction have been invited. Architects have now been selected for the hotel training school, and design work by Unesco for the village centers has begun. Government has now formulated specific technical assistance requirements for strengthening the educational planning service, and recruitment is underway.

Cr. 549/                    Sine Saloum Agricultural Development; US\$7.0 Million  
Ln. 1113                    Credit and US\$7.0 Million Loan of May 22, 1975; Effective  
October 31, 1975; Closing Date: June 30, 1981

The project aims at increasing and diversifying agricultural production in the Sine Saloum region through strengthening the activities of the Societe de Developpement et de Vulgarisation Agricole (SODEVA). Activities under the project, including the setting up of extension services, are underway as planned.



Cr. S-18      Debi-Lampsar Irrigation Engineering Credit, US\$1.0 Million Credit of May 22, 1975; Effective February 13, 1976; Closing Date: December 31, 1977

The Credit finances execution of the engineering studies needed for implementation of the Debi-Lampsar irrigation scheme. Despite delays in effectiveness, the studies are now well advanced, and the original schedule for project implementation will not be substantially delayed.

Cr. 578      Terres Neuves II Resettlement and Eastern Senegal Technical Assistance Project, US\$2.0 Million Credit of August 6, 1975; Effective November 14, 1975; Closing Date: December 31, 1979

The project includes resettlement of 600 families, and execution of studies and surveys for a master plan for the Eastern Senegal region. The settler recruiting campaign and initial land clearing have been undertaken as planned.

Ln. 1221T      Feeder Roads Project; US\$6.6 Million Loan of March 31, 1976; Effective June 15, 1976; Closing Date: June 30, 1980

The project consists of improvement and maintenance of 1,250 km of feeder roads, purchase of highway equipment and spare parts, and technical assistance. The project is now in the very early stages of implementation. Government is about to award contracts for equipment procurement, and is also in the process of establishing the administrative structure for maintenance operations.

Ln. 1222      Third Highway Project; US\$15.0 Million Loan of March 31, 1976; Effective June 15, 1976; Closing Date: June 30, 1980

The project consists of pavement strengthening of 204 km of primary roads, equipment procurement, and consulting services for preinvestment studies, highway maintenance, and to develop the domestic construction industry. Government is now in the process of awarding construction and consultants' contracts for 130 km of the pavement strengthening works, and for preinvestment studies and technical assistance. The first 74 km phase of the strengthening program carried over from the Second Highway Project (Credit 366-SE) is progressing satisfactorily.

Cr. 633      Eastern Senegal Livestock Project; US\$4.2 Million Credit of June 17, 1976; Effective June 29, 1977; Closing Date June 30, 1982.

The project consists of developing and operating a controlled grazing scheme, and providing effective animal health, extension and credit services to some 30,000 livestock owners. Prior to project effectiveness, Government used about US\$100,000 of the Project Preparation Facility accorded by IDA. Government and SODEFITEX, the parastatal company charged with project implementation, are continuing to prefinance the Project Unit. The 1976/77 vaccination campaign financed under the Project is underway; the first pastoral unit has been established and livestock producers appear to accept the project enthusiastically.



Cr. 647                    Second Sedhiou Project: US\$6.3 Million Credit of June 25, 1976; Effective November 23, 1976; Closing Date: June 30, 1981.

The project is the second phase of the Casamance Rice Project (Cr. 252) initiated in 1971 in the Sedhiou district and now completed. The objectives of the present project are to increase and diversify agricultural and livestock production, and raise the incomes of the district's rural population. The project would be based on improved farm practices successfully introduced under the first operation.

Ln. 1332                    Second SOFISEDIT Project; US\$4.2 Million Loan of October 14, 1976; Effective April 21, 1977; Closing Date: June 30, 1981.

US\$4 million of the Loan amount would meet approximately two-thirds of SOFISEDIT'S requirements for financing the foreign exchange component of approved industrial and tourism projects through December 1978. The remaining US\$200,000 would be passed on to the Societe Nationale d'Etudes et de Promotion Industrielle (SONEPI) to help develop an integrated scheme for providing assistance to small-scale Senegalese entrepreneurs. Effectiveness was delayed to correct a problem with designation of signatories to the Loan Agreement.

Ln. 1405T                    Dakar Fishing Port Project: US\$6.0 Million Loan of June 7, 1977; Not yet effective; Closing Date: June 30, 1981.

The project consists of four major components: (i) increasing the berth space available to accommodate industrial fishing vessels; (ii) providing essential waterfront areas for repair, storage and maintenance of fishing gear, ice plants, workshops, and administrative offices; (iii) ensuring maximum revenues by application of effective control over fleet operations and setting adequate tariff structures; and (iv) studying the requirements for handling future container traffic.

Ln. 1412T                    Petite Cote Tourism Project: US\$8.0 Million and US\$5.6 Million  
Ln. 1413                    Loans of June 7, 1977; Not yet effective; Closing Date:  
June 30, 1981.

The project consists of three major components: (i) infrastructure and common facilities for development of the first hotel zone at Sali Portudal, including construction of a 250 bed pilot hotel, and a new telephone exchange at N'Bour; (ii) renovation on Goree Island; and (iii) funds for project administration, technical assistance, and studies.



### 3. Prospective Operations

#### Education

3.1 A proposed Third Education Project identified in July 1977 will take account of the Government's major sector objectives and also some lower priority goals. It will help the Government meet modern sector requirements for trained middle- and high-level technicians and managers, high- and middle-level manpower needs for the agricultural sector and will provide literacy training for members of village councils. The Minister of Planning requested during the Annual Meetings that of the project components identified, the following items be given priority: equipment and technical assistance for a Management Development Institute; construction, equipment, and technical assistance for a technical teacher training college; a National Institute for Rural Development to train agronomists; and a National School of Horticulture to train low- and middle-level agricultural technicians. The mission also identified a component for vocational training, non-formal education and technical assistance for education planning and evaluation. These latter items will be included in the project as secondary priorities.

3.2 The Minister of Planning also asked that the proposed project include a component for eventual modernization of the Koranic school system. This possibility will be examined with the Ministry of Education by a follow-up identification/preparation mission scheduled for the second half of October which will include a specialist in primary education. However, the Bank delegation explained that we could do no more than support Government initiatives in this matter, and could not impose a strategy. The Bank Group might be prepared to finance a detailed study which would outline a modernization strategy and propose an appropriate program for implementing it as part of this project.

3.3 The main shortcoming of the proposed project as identified is that it makes no provision for improving access to education in rural areas where primary school enrollment ratios are sometimes as low as 20%. This is essentially because the Government position on this issue is ambiguous. On the one hand, the Fifth Plan proposes limiting the growth of primary school enrollments to about 3%, which would stabilize the enrollment ratios; on the other hand, during a meeting with the identification mission, the Minister of Education emphasized that the Government is determined to achieve Universal Primary Education by the end of the century; however, no strategy to achieve this has yet been defined. The Ministry intends to submit to the Bank at a later date a request for assistance in the field of primary education, reportedly relating to the introduction of national languages and related teacher training. Details are not yet available, but a UNESCO consultant being recruited by the Government to study the possibilities to expand access to primary education will be requested to prepare this item. However, the political decisions required for the introduction of local languages may not be taken in time to allow inclusion of this component in the proposed Third Education Project, particularly with national elections scheduled for April 1978. Project preparation of the other components is now underway, with appraisal scheduled for May/June 1978 and Board presentation in FY 79. The estimated cost of the project is \$20 million.



### Para-public Technical Assistance Project

3.4 A key channel for Government's development strategy is the para-public sector composed of public enterprises, which are wholly Government-owned, and of mixed companies, owned both by Government and private entrepreneurs. Government is now involved in almost all sectors of the economy. While the para-public sector is still very young and it is too early to make a definitive assessment of its overall record, it has constituted a drain on public finances and has not contributed as much as expected to development goals. In June 1976, a Bank mission, including a representative of Government, carried out an organizational, economic and financial analysis of the sector. President Senghor asked to meet with the mission and explained his desire to rationalize Government control over the sector and to teach his country modern management techniques to make his socialism more effective. The Bank's report was discussed with Government in November 1976 and included a number of functional recommendations, leaving the highly political institutional decisions for Government itself to make. In February 1977, The Prime Minister informed the Bank that the new institutional decisions had been made and requested the Bank to finance a technical assistance project to help implement them. The project was appraised in July 1977 and includes a three-year program to assist Government in improving its strategic analysis and operational supervision of the para-public sector and to train the officials dealing with and employed by mixed companies and public enterprises. It provides for: (i) eight expatriate experts and an increase in local staff for Government controlled organizations; (ii) auditing of our key public enterprises and three mixed companies; and (iii) training of project staff, Government representatives on the boards of para-public sector companies and accountants. The project is scheduled to be presented to the Loan Committee in October 1977 and then negotiated with Government. The major outstanding issue prior to negotiations is the Bank's request that Government appoint a highly qualified Senegalese to coordinate staff in the Office of the Financial Controller of the Presidency (FCP) which is now responsible for strategic analysis, operational supervision and formal control over most of the para-public sector. The FCP will have four expatriate technical assistants financed under the proposed project but the Bank feels strongly that a senior Senegalese must be appointed as coordinator so the Government's attempt to unify its control of the sector in the FCP can succeed.

### OMVS

3.5 Senegal, Mauritania and Mali are working through the Organisation pour la Mise en Valeur du Fleuve Sénégal (OMVS) to regulate and develop the water resources of the Senegal River. The OMVS High Commission was reorganized in December 1975 in order to increase its capacity to supervise final studies and execution of an ambitious program to permit year-round irrigation on about 430,000 ha along the river (220,000 ha in Senegal, 160,000 ha in Mauritania, and 50,000 in Mali). The key regional infrastructure-- a salt water intrusion dam at Diame (Senegal), and a large multipurpose dam at Manantali (Mali) which would partially regulate the river--are the subject of feasibility and final engineering studies financed respectively by France and Germany.



The Diama studies will be finished later this year, with Manantali studies scheduled for completion by end 1978. During the past year and a half we have helped OMVS define its personnel needs, and will be the executing agency for a \$2.25 million UNDP-financed four-year program of institutional support for the High Commission recently approved by the OMVS Council of Ministers.

3.6 While we would be prepared, subject to our usual economic and technical analysis, to finance some parts of this proposed regional infrastructure program, we have concentrated on national irrigation and institution building projects which are vital if the three countries are to benefit from the overall program. Earlier this year we appraised the Debi Lampsar project which is based on single cropping but would go to double cropping following construction of the Diama Dam. The project also includes a large component for training and technical assistance so that Senegal can increase its annual pace of irrigation development. Project costs are estimated at \$32.4 million (of which our contribution is budgeted at \$20 million), and the Kuwait Fund has been approached to co-finance the Debi perimeter. We hope to negotiate the project following the receipt of bids for civil works and equipment expected in October 1977.

3.7 At the last donors' meeting in June 1976, the Bank indicated its readiness to provide about \$50 million for the OMVS program (mostly for irrigation development and possibly for infrastructure), depending of course on the availability of Bank Group resources and our usual criteria for project appraisal. While our pledge was welcome, the three Governments would have been much happier had we been able to specifically support the two dams. President Senghor's position is that Sahelian development programs like OMVS should not be judged on economic rates of return, but on the clear and obvious needs of the region. He may consider the Bank's adherence to economic criteria as an implicit threat to parts of the OMVS program which are plainly political such as building both Diama and Manantali at the same time and spending money on river navigation in order to provide Mali with an outlet to the sea other than the Dakar/Bamako railroad. When you see President Senghor he will have just: (i) visited the OPEC countries together with the Presidents of Mauritania and Mali to muster support for OMVS; and (ii) hosted the November 2-4 donors' conference in Dakar. There are indications that the Bank Group may be approached to participate in the financing of the dams, although we have not yet been formally approached to do so.



SPECIAL BRIEF ON IFC OPERATIONSCurrent MattersSENEGAL

5. Project Pipeline: Two projects are under active consideration:

- (a) Tannery Project. A \$3.3 million tannery project sponsored by Compagnie Francaise d' Afrique Occidentale (CFAO) and a Government-owned company involved in cattle raising and slaughtering and hide exports; and
- (b) Corrugated Board Project. A \$6.8 million project for the production of corrugated board and corrugated cartons, sponsored by a Senegalese businessman, the local DFC and a French firm.

6. An IFC promotional mission will visit Senegal at the end of October to review the operations of Bud Senegal, a producer of fresh vegetables for export, which IFC has helped finance and will discuss a number of other projects for future development, including textiles, cement and a hotel in the tourist area being financed by the Bank.

Existing InvestmentsSENEGAL

| <u>Date of Commitment</u> | <u>Company</u>   | <u>Business</u>       | <u>Original Commitment</u> | <u>Investment Held for the Corporation (7/31/77)</u> |
|---------------------------|--|-----------------------|----------------------------|--|
|                           |  |                       | ----- (\$'000) -----       | -----  |
| 1972, 1974                | Bud Senegal, S.A.  | Agribusiness          | 844.1                      | 677.2  |
| 1967                      | Société Industrielle d'Engrais au Sénégal (SIES)   | Fertilizer            | 3,459.8                    | 1,117.8  |
| 1974                      | Société Financière Sénégalaise pour le Développement Industriel et Touristique (SOFISEDIT) | Development Financing | 237.5                      | 237.5  |

## OFFICE MEMORANDUM

TO: Files

DATE: October 7, 1977

FROM: Jonathan C. Brown *JCB*SUBJECT: Meeting with the Senegalese Delegation at the Annual Meeting

1. Following a series of technical discussions, a summary meeting was held with the Senegalese delegation on Thursday, September 29, 1977 at 5 p.m. at the Sheraton Hotel. The Bank was represented by Messrs. de la Renaudière, Thalwitz, de Azcarate, Geli, Payson, Bachmann, Gillette, de Leede, de Raet, Ms. Brathwaite and myself. The Senegalese delegation was led by Mr. Ousmane Seck, the Minister of Plan and Cooperation and included Messrs. Ndiaye, Tombadou, Faye, Cisse, and Diouf. The following subjects were discussed:

General

2. Minister Seck said he was happy with the volume of projects and the amount of funding provided by the Bank Group and had no problems with the personal relations between the Bank and Senegal. However, he noted the length of time it took to prepare and appraise new projects.

Counterpart Funds

3. Minister Seck described the public finance situation which was making it difficult for Government to come through with promised counterpart fundings despite the high priority given to Bank Group projects in the Investment Budget. He suggested four possible solutions: (i) the Bank Group would finance 100% of project costs; (ii) Government could make a greater effort when public finances improve; (iii) the Bank could finance cost overruns; and (iv) the Bank could finance a smaller number of projects with a greater percentage of total project costs.

4. Mr. de la Renaudière suggested that the Bank would consider financing cost overruns through bringing forward follow-up projects more quickly. In projects with a high foreign exchange component, the Bank would find it difficult to finance local costs. However, in projects, particularly in social sectors, with a low foreign exchange component, the Bank would be prepared to consider financing part of local costs.

Water Supply

5. Minister Seck stated that the Bank's impression that this project was not among Government's priorities was incorrect and that Government would meet the appraisal conditions (the designation of contacts in the Ministry of Rural Development and in SONEES, the water company, and the approval of a contract for some preparation studies) but he asked that the foreign component of the studies be financed retroactively by the Bank.



Mr. de la Renaudière suggested that we should agree to finance retroactively this amount.

Para-Public Sector Technical Assistance Project

6. Minister Seck stated that while this was an important project and had been prepared with alacrity, one of the negotiating conditions would prove difficult: the nomination of a high level Senegalese to coordinate the para-public sector monitoring unit in the Financial Controller of the Presidency (FCP). Minister Seck suggested three options: ← always difficult

- (i) obtaining a Senegalese before negotiations, which he thought would be very difficult;
- (ii) having the coordination done by the expatriate technical assistance with the nomination of a Senegalese later, trained under the project; and
- (iii) giving intensive training to one of the Senegalese in the FCP now who could take over the coordination in the next year.

Minister Seck suggested either options (ii) or (iii).

7. Mr. de la Renaudière replied that this project was in an important area, controlling over half of the economy, and that it should be directed by a Senegalese rather than imposed from the outside in order to create a permanent institution. The staff felt the nomination of the Senegalese (option (i)) was essential, but Mr. de la Renaudière promised to cable Minister Seck with the Bank's position after thinking the question over.

Education

8. The project components had been agreed upon in the technical meetings and funds for final preparation would come from the Education II Project or from a PPF if necessary.

Pahlavi

9. It was agreed that the selection of consultants for the transport study could begin if Iran, Senegal and the Bank agreed on the terms of reference and when the annexes on the industrial units were more precise. Senegal would begin looking for consultants now and the Bank should propose to Iran an administration letter with supervision left to the Bank <sup>1/</sup>. Minister Seck said it would be difficult to resolve in the near term the issue of whether there would be one phosphoric acid plant or two; Mr. de la Renaudière promised to

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<sup>1/</sup> The compte rendu of the technical discussions on the transport study leaves open the option of whether the transport study would be executed by Senegal or by the Bank (as in UNDP-financed projects).

October 7, 1977

cable Minister Seck if this posed a problem. Mr. de la Renaudière also asked Minister Seck to contact 1/ the Iranians about (i) reaffirming their commitment; and (ii) increasing the amount of money they would contribute to the studies since its costs were now estimated at at least \$1 million for the first phase.

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1/ Mr. Richard Demuth informed me October 4, 1977 that Minister Seck had met with Cyrus Ansary, an advisor to the Prime Minister, who had been an important participant in the Teheran meeting in June. Mr. Ansary said that there was complete confusion in Iran about who was handling the Pahlavi Project now that Minister Magidi had left the Plan and Budget Office. Mr. Ansary advised Minister Seck to cable Iran saying that the Bank and Senegal had agreed on the terms of reference and asking whom to contact in Iran about going forward with the study.

JCBrown:ja

cl. and cc: Mr. de la Renaudière

cc: Messrs. Chauffournier, Thalwitz, Pouliquen, Van Gigch, de Azcarate, Geli, Payson, Bachmann, Brandreth, Cole, Salazar, Gillette, Prenoveau, de Leede, de Raet, Grant Duff, P. Levy, Motte, Verspoor, Ms. Brathwaite.



## THE NEWS MEDIA IN SENEGAL

The media in Senegal comes under the umbrella of the country's single party: the Senegalese Progressive Union (UPS). Mr. Daouda Sow is the Minister of Information.

### (a) Newspapers

#### Le Soleil

The country's only newspaper, published daily in Dakar since 1970. It has a daily circulation of 25,000. The director is Mr. Bara Diouf. On September 29th this year it published a positive editorial on your speech to the Annual Meeting. Moktar Kebe, the president of the Senegalese Association of Journalists, is an editor of the paper; he recently visited IPA in Washington. Both Diouf and Kebe have great influence on Senegalese public opinion. Although they are active party members they are independent thinkers too.

### (b) Magazines

#### Le Moniteur Africain

This is one of the more important independent monthly magazines. Justin Mendy, its chief editor, participated in IPA's Abidjan Seminar. As a result, the magazine published some articles on the Bank.

### (c) Radio

The Radiodiffusion Television du Senegal (RTS), set up in 1960 as an autonomous public corporation, is financed by government subsidy and advertising revenue. Its national and international networks in Dakar are each on the air for 18 hours a day in French. A second network carries daily 20-minute broadcasts in Portuguese, Arabic and English.

There are four regional stations, each of which originates programmes

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of its own and is on the air for 8 to 9 hours daily. They broadcast mainly in six local languages, the most important of which are Wolof and Toucouleur. Programmes include rural education broadcasts especially designed for group listening in village radio clubs.

(d) Television

Television services are being extended from Dakar to cover the Diourbel and Sine-Saloum areas. Programmes, many of which are imported from France, now consist mainly of information, general cultural material and entertainment.

(e) Senegalese News Agency

This is the country's national news agency with headquarters in Dakar. It is commercially operated and receives a government subsidy. Its subscribers, who include newspapers, radio stations, government ministries, foreign embassies and private companies throughout the country, receive two news bulletins daily. Mr. Amadou Dieng, its director attended IPA's press briefing in Dakar in September 1977 for the Annual Report, and was instrumental in the agency's Annual Report Speech coverage this year.

(f) Foreign News Agencies

Agence France Press (AFP), Reuters, UPI, AP, Novosti, and DPA (German Press Agency) are represented in the country.